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INTERNATIONAL TRADE DISTORTIONS HARMING U.S. AGRICULTURAL EXPORTS

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COMMITTEE ON FOREIGN RELATIONS
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INTERNATIONAL TRADE DISTORTIONS HARMING U.S. AGRICULTURAL EXPORTS

TUESDAY, JUNE 26, 1984

United States Senate,
Committee on Foreign Relations,
Washington, DC.

The committee met, pursuant to notice, at 2:18 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Larry Pressler presiding.

Present: Senators Percy, Boschwitz, Pressler, Hawkins, and Biden.

Senator Pressler. We will now begin the hearing on international trade distortions harming U.S. agricultural exports. First, I want to thank all of our witnesses for participating in the hearing today. I look forward to hearing your comments on agricultural trade. As you know, agricultural exports play a vital role in our farm economy and the entire Nation's economy. One out of every 3 acres of farmland produces products for export. Our agricultural exports reached a record level in 1981 at $43.8 billion. Unfortunately, our exports have declined since that time.

Our agricultural exports also constitute the largest positive factor in our balance of trade. Our agricultural trade surplus reached a record level in 1981 at $26.5 billion. This agricultural trade surplus has helped keep our growing trade deficit from being even larger. Unfortunately, since 1981, our agricultural exports and agricultural trade surplus have declined.

This decline has depressed the domestic farm economy and also caused our overall trade deficit to grow at an even faster rate. It is imperative that we reverse this downward trend and once again begin a steady growth in agricultural exports. It looks like 1984 will be a better year for agricultural exports, but we still have a lot of work to do to ensure that our exports will continue to increase. We must find effective ways of creating new export markets and protecting our current export markets from unfair competition from other nations.

This will require elimination of foreign nations' trade restrictions on U.S. farm products, changes in excessive export subsidy programs and certain other questionable export promotion programs. I have always said that greater agricultural exports offer the best opportunity to improve domestic farm prices. Unfortunately, foreign nations use various practices to protect their agricultural sectors and to make their agricultural products artificially competitive on the world market.

These policies often have a direct negative impact on U.S. agricultural exports. For example, the Japanese quotas on U.S. beef products place strict limits on the amount of beef American cattlemen can sell to Japan. Although there is a great potential for additional U.S. beef export sales, the Japanese Government arbitrarily limits the amount that we can sell.

Other countries use export subsidy programs to make their products competitive on the world market. The European Economic Community's [EEC] export subsidy program is the best example of this. These policies unfairly displace American farm products in the world market. If we are to expand our agricultural export markets in the future, we must effectively deal with foreign trade and agricultural policies that restrict and displace our farm products.

The purpose of this hearing is to explore new and current U.S. responses to these various trade policies.

I shall now call on my colleague, Senator Boschwitz.

Senator **Boschwitz**. I have no statement, Mr. Chairman. I am anxious to greet and listen to the witnesses.

Senator **Pressler**. Then I will call to the witness table panel No. 1, the public witnesses, Mr. Fred Sanderson, of Resources for the Future, Mr. Ed Jaenke, from Washington, DC, and Dr. Mark Edelman, South Dakota State University. I might say that Dr. Edelman has recently completed a survey of farmers' views in the area of agricultural trade.

I would like to call on each of you for your opening statements. Fred, since you are listed first, I will call on you, if that is agreeable.

STATEMENT OF FRED H. SANDERSON, SENIOR FELLOW, RESOURCES FOR THE FUTURE, WASHINGTON, DC

Mr. **Sanderson**. Mr. Chairman, Senators, I appreciate your invitation to testify on foreign agricultural trade policies and other factors affecting our agricultural trade. In my oral presentation, I shall focus on the agricultural policies of the European Community, the trading partner that has given us the most trouble.

Agricultural protectionism in Europe, as you are well aware, antedates the establishment of the European Community. The Community can be faulted, however, for maintaining a very high level of protection when the original justification for it has largely disappeared.

Agricultural employment has dropped by half during the past 20 years, and productivity per person employed has almost tripled. This is a record which matches if it does not surpass that of the United States, yet the level of agricultural protection in Europe still averages 45 percent, about the same as 20 years ago.

This means that European consumers are spending some $30 billion a year more for their food than it would cost in the world market. In addition, the Community is spending some $14 billion on budget support, almost half of that on export subsidies. The result has been that the EC, once a leading net food importer, has become a major net exporter of grains, sugar, dairy products, poultry, and beef.

Alarmed by the explosion of farm support costs, which has pushed the EC budget up to its statutory limit, the Community has now embarked upon a policy of budget restraint. In all member countries, support price increases this year fall short of the expected inflation rate, for the EC as a whole by an average of 2 percent.

Beginning this year, the quantities of milk eligible for support will be limited to 1 percent above 1981 deliveries for 5 years with severe penalties on milk producers who exceed their quotas. In addition, the EC is trying to negotiate restraints on imports of so-called grain substitutes such as manioc and gluten feed, which it holds responsible for its mounting grain surpluses.

Hailed in Europe as a major agricultural policy reform, these measures should be seen for what they are, a modest course correction aimed at slowing down future increases in the budget costs of farm support in the Community. This year's decisions were prompted by the budget crunch which now seems likely to be eased by an agreement to raise the statutory limit on the budget contributions of member countries.

Whether this year's good intentions will survive in easier budgetary circumstances remains to be seen. In any event, this year's decisions do not imply an EC withdrawal from its export markets. On the contrary, the Community has made it clear that it intends to continue to subsidize exports, and it is worth noting that the quantity of milk eligible for price support includes a 15-percent surplus over domestic consumption, and nothing has been done to discourage the present level of surplus production of grains.

It is not clear from recent official pronouncements whether the EC still intends to pursue its long-term objective of reducing its grain support prices to world market levels. Little progress has been made so far toward achieving that goal, yet that is the most promising course the EC could take in its agricultural policy.

Achievement of competitive grain prices would have favorable effects on the entire structure of agricultural prices in the Community. It would greatly reduce the need for import restrictions and export subsidies, not only for grains, but also for livestock products.

It would take care of the problem of grain substitutes the EC has been complaining about. It would thus go far toward resolving the sore spots in United States-European Community agricultural relations, but for reasons explained in my full statement, there probably would not be a large payoff in terms of increased U.S. agricultural exports.

There always are some hot issues in our agricultural trade relations that cannot wait for basic policy reforms. Two of those are the serious disputes we have with the European Community, one concerning their request for partial suspension of the duty-free entry of U.S. gluten feed into the Common Market which the EC had granted us many years ago in exchange for trade concessions on our part. The other issue is the longstanding problem of EC export subsidies and the aggressive stance the Community has taken on that issue.

I believe that in both cases, the U.S. response should be based on its rights under the GATT [General Agreement of Tariffs and Trade]. The EC proposes to limit duty-free imports of U.S. gluten feed to 3 million tons, which is the average for 1981 to 1983. Additional quantities would presumably face a prohibitive import levy.

The European Community argues that it is in the U.S. interest to accede to their request because it would reduce EC grain surpluses. The United States, of course, can point to the fact that the problem is self-inflicted. All the EC has to do is to get on with reducing its excessive grain support prices that make grain substitutes attractive.

Be that as it may, the EC has the right under article 28 of the GATT to suspend or withdraw any concession it has made. The United States in turn is entitled to compensation in the form of equivalent concessions on other products. If the offer is unsatisfactory, the United States has the right to retaliate by withdrawing concessions on EC exports to the United States.

The United States is rightly concerned, I think, that EC action against gluten feed may be the forerunner of EC action on soybeans, and we are therefore hinting at U.S. retaliation against EC wine, beer, and soft cheese. As with earlier EC attempts to impair the duty-free entry of soybeans by a tax on vegetable oil, the threat of retaliation is likely to be sufficient, I think, to discourage EC action against gluten feed, or it may prompt the EC to offer alternative concessions of equal value.

Understandably, retaliation is the option which appeals to our farmers, the corn processors, and probably some wine makers. Our Deputy Trade Representative, Mr. Lighthizer, is reported to have said that retaliation is probably inevitable, because the $2 billion compensation the United States has in mind would not be acceptable to the EC.

But we have to keep in mind, Mr. Chairman, that it is the American consumer who would end up paying the bill in terms of higher prices for the products which are selected for retaliation. From the consumer's point of view, accepting fair compensation is the preferable course of action. Presenting a stiff bill for compensation may be an appropriate tactic to deter EC action.

But should it come down to a choice between compensation and retaliation, we need to ask ourselves how far we are prepared to go in the defense essentially of American corn processors who already are protected against competition from imported sugar and who are heavily subsidized by the public on their ethanol production.

Now, so far as the other issue is concerned, the EC export subsidies, the situation is not as confused as it is often made out to be. It is clear that the EC has greatly increased its export share in wheat and flour, sugar, beef, poultry and dairy products, and that this would not have been possible without mounting export subsidies.

Agricultural products, unfortunately, are exempted from the GATT prohibition on export subsidies.

Senator **Pressler**. You said agricultural products are exempted from what?

Mr. **Sanderson**. They are exempted from the prohibition against export subsidies which otherwise apply to other exports. But export subsidies even on agricultural products are permitted only to the extent that they are not used to gain more than an equitable market share.

Now, equitable market share may seem like a rather vague notion, but it has traditionally been defined as the historical share. It is an old GATT rule which we may now regret was introduced at the insistence of the United States in the 1950's when we supported market prices above world market levels and could not have exported without subsidies.

The definition of equitable share was reaffirmed and made more precise in the subsidy code negotiated in the Tokyo Round which provides for a recent representative 3-year base period. This formula, which would place a cap on the EC export share, offers, I believe, a reasonable basis for a compromise with the EC.

It would avoid an escalation of export subsidies that could become extremely costly to all concerned. I believe that the EC would be receptive to such a compromise, since it would fit in with their current efforts to limit the budgetary cost of farm subsidies, and to limit the quantities eligible for support.

An interim agreement along these lines need not prejudice continuing efforts in GATT and in the Organization for Economic Cooperation and Development [OECD] to review and remove the various devices now being used to subsidize agricultural exports directly or indirectly.

To conclude, Mr. Chairman, we all know that pragmatic solutions are not as popular as calls for retribution, and occasionally, I would agree that a warning shot may help to bring a reluctant competitor to the bargaining table, and that is the way in which the present administration has used the modest export subsidies which we now have on our books.

But more likely even our present limited export subsidy programs will invite countermoves by the other side. I recall that we gave our flour millers about 800,000 tons of publicly owned wheat free of charge to enable them to sell 1 million tons of flour against heavily subsidized EC competition in the Egyptian flour market. What did the EC do? It responded by cutting its price, and they are back in that market.

Export subsidies may seem to be a good idea to expand our sales until we stop to think what the competitor is going to do.

Thank you, Mr. Chairman.

[Mr. Sanderson's prepared statement follows:]

Agricultural Trade Issues with the EC and Japan

Statement by Fred H. Sanderson[*]
Senior Fellow
Resources for the Future
Washington, D.C.

before the

Subcommittee on Arms Control, Oceans, International
Operations, and Environment

of the

Senate Committee on Foreign Relations

June 26, 1984

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[*] The views expressed are solely those of the author and in no way constitute a statement of policy of Resources for the Future.

I appreciate your invitation to testify on foreign agricultural trade policies and other factors affecting our agricultural trade. In my remarks I shall focus on the agricultural policies of the European Community and of Japan because these are the areas with which I am most familiar. They also are the trading partners whose policies have given rise to most complaints. I shall review the historical record and the probable evolution of EC and Japanese agricultural policies as they affect our agricultural exports. I shall then discuss some possible U.S. responses.

The European Community

Agricultural protectionism in Europe antedates the establishment of the European Community. The Community can be faulted, however, for maintaining a very high level of protection when the original justification for it has largely disappeared. Agricultural employment has dropped by half during the past 20 years; productivity per person employed has almost tripled. Yet the level of agricultural protection still averages 45% - about the same as 20 years ago. This means that European consumers are spending some 30 billion dollars more for their food than it would cost in the world market.[1] In addition, the Community is spending some 14 billion dollars on budget support - almost half of that for export subsidies. The result has been that the EC, once a leading net food importer, has become a major net exporter of grains, sugar, dairy products, poultry and beef.

Projections by the European Commission point to further increases in surpluses: grains, from 9 million metric tons in 1983/84 to 23 million tons in 1990/91; milk, from 15 to 34 million tons; meat, from 600,000 to 1,500,000 tons.[2]

Alarmed by the explosion of farm support costs, which has pushed the EC budget up to its statutory limit,[3] the Community has now embarked on a policy of budget restraint. In all member countries, support price increases this year fall short of the expected inflation rate - for the EC as a whole, by an average of 2%.

Beginning next year, the quantities of milk eligible for support will be limited to 1% above 1981 deliveries for 5 years, with penalties on milk producers (or dairies) who exceed their quotas. In addition, the EC is trying to negotiate restraints on imports of so-called grain substitutes, such as manioc and gluten feed, which it holds responsible for its mounting grain surpluses.[4]

Hailed in Europe as a major agricultural policy reform,[5] these measures should be seen for what they are: a very modest course correction designed to slow down future increases in the budget costs of farm support to a pace compatible with the growth of budget receipts. This year's decisions were prompted by the budget crunch which now seems likely to be eased by an agreement to raise the statutory limit on the budget contributions of member countries. Whether this year's good intentions will survive in easier budgetary circumstances remains to be seen.

In any event, this year's decisions do not imply an EC withdrawal from its export markets. On the contrary, the Community has made it clear that it intends to continue to subsidize exports and it is worth noting that the quantity of milk eligible for price support includes a 15% surplus over domestic consumption. It should also be recalled that a somewhat different quota systems for sugar, in which net exports are financed by levies on price-supported production, has not prevented mounting sugar surpluses in the EC.

It is not clear from recent official pronouncements whether the EC still intends to pursue its long-term objective of reducing its grain support prices to world market levels. Little progress has been made, so far, toward achieving this goal. Yet that is the most promising course the EC could take in its agricultural policy.

Achievement of competitive grain prices would have favorable effects on the entire structure of agricultural prices in the Community. It would greatly reduce the need for import restrictions and export subsidies, not only for grains but also for livestock products, and it would thus go a long way toward removing the points of friction with the U.S. and other agricultural exporting countries.

Japan

Although Japan has an even higher average level of agricultural protection than the EC, it is more limited in scope and its trade effects are not nearly as great. Rice accounts for the bulk of the cost to consumers and taxpayers, with beef a distant second, followed by dairy.[6] Japan has a relatively low level of protection on most livestock products because it decided early on to admit feedstuffs freely, without restrictions, and so laid the basis for an efficient livestock industry. The Japanese production potential for crops is very limited. Even the very high support price for rice (about four times the world market price) has not resulted in an increase in rice production, though it has encouraged a level of production that tends to exceed the declining demand. In contrast with the EC, the damage Japan can inflict on other suppliers by stimulating production is very limited. The principal damage is to the Japanese consumer, who has to pay much higher prices.

The degree of agricultural protection rose very fast in Japan between 1955 and 1965 but it has now levelled off as a result of more modest increases in price supports.[7] Rice production has been cut substantially in the past few years and burdensome surplus stocks have been disposed of. Very generous payments have encouraged farmers to divert rice land to other crops and this has resulted in a 500,000 ton increase in wheat production in the past several years.[8] Domestic rice and wheat are purchased by the Japanese Food Agency at 3 to 4 times the world price and resold to the public at a loss. All imported wheat is purchased by the Food Agency at world prices and resold to the public at a profit. Domestic beef production is supported at about 3 times the world price and protected by tight import quotas administered by the semi-official Livestock Industries Promotion Corporation. Poultry and pork production are competitive or nearly so and import protection is zero in the case of poultry and moderate for pork.

Implications for U.S. Agriculture

As an efficient producer of most temperate zone agriculturall products, the U.S. has a natural interest in the elimination or reduction of foreign agricultural trade barriers and subsidies. Past negotiations to that end have met with only limited success. The outstanding achievement still remains the duty-free binding of soybean imports by the EC some 20 years ago that has given rise to a 3.5 billion dollar trade.

The principal reason for the lack of progress in liberalizing agricultural trade is that agricultural trade barriers and export subsidies are merely manifestations of domestic farm programs. One cannot, therefore, make significant changes in the external measures without making corresponding changes in domestic legislation. That is where politics intervenes. Farmers consider domestic farm programs a sovereign matter and none of the business of foreign countries. The U.S. is no exception. It would take some rather profound changes in our domestic programs before we could comtemplate the removal of quotas, or of equivalent barriers, to our imports of dairy products, sugar and peanuts.

We should also keep in mind that despite their protectionism, the EC and Japan continue to be the American farmer's leading foreign markets. In 1983, the EC accounted for $7.4 billion, or 20.5%, of our agricultural exports; Japan, for $6.3 billion, or 17.5%. In the EC, the decline in the volume of our grain exports has been more than offset by the spectacular growth of our oilseed exports. Our share in the EC's agricultural imports from non-members has increased. Japan has been a growing market for U.S. agricultural products: its imports of U.S. grains and soybeans rose from 5 million metric tons in 1963 to 23 million tons in 1983.

Prospects for future growth are quite different in the two markets. In the affluent countries of Northwestern Europe, the demand for livestock products is approaching satiation. There is room for further dietary improvements in the countries of Southern Europe but their import needs are likely to be met from within the Community. The EC will continue to be a major importer of oilseeds but the growth of these imports is likely to slow down considerably. Continuing EC imports of high quality wheat and corn may be expected to be more than offset by rapidly increasing exports of soft wheat.[9]

Prospects for market expansion in Western Europe would not improve very much even if the EC should follow up on its declared long-term objective of reducing its grain support prices to world market levels. Because of strong productivity growth, a gradual reduction of real grain prices could probably be absorbed without significant effects on EC grain production. Grain consumption, which has levelled off during the past 10 years, could be expected to increase moderately, but mainly because it would make grain substitutes less attractive. Lower EC grain prices would probably mean reduced EC imports, not only of manioc but also of U.S. gluten feed and soybeans. And they would make the EC more competitive in export markets of livestock products.

I do not wish to imply that lower EC grain support prices would not be a good thing, or contrary to U.S. interests. As already mentioned, once EC grain becomes competitive, this would greatly reduce, if not remove, the need for import restrictions and export subsidies. It would take care of the problem of grain substitutes the EC has been complaining about. It would thus go far toward resolving the sore spots in US - EC agricultural relations. But there probably would not be a large payoff in terms of increased U.S. agricultural exports.

In Japan, the prospects for increased U.S. exports are much more favorable because the consumption of livestock products is still far below what would be expected in a high-income country. The RFF/EPI projection points to a near-doubling of grain and oilseeds imports by the end of the century.[10]

Current Issues

There always are some "hot" issues in our agricultural trade relations that cannot wait for basic policy reforms. One of these was our dispute with Japan over beef and oranges that has now been settled by the recent Japanese agreement to double the American quotas over the next 5 years. We are left with two serious disputes with the European Community. One concerns the EC request for a partial suspension of the duty-free entry of U.S. gluten feed into the Common Market which the EC had granted us many years ago in an exchange of trade concessions. The other is the long standing problem of EC export subsidies and the aggressive stance the Community has taken on this issue.

I believe that in both cases, the U.S. response should be based on its rights under the General Agreement on Tariffs and Trade.

Clearly, the EC has a problem with imports of grain substitutes which have escalated from 4 million tons in 1970-72 to 16 million tons in 1982/83 and are, apparently, still rising. Manioc accounts for half of these; corn gluten for about one-fourth; citrus pellets for about one-tenth.

The EC has negotiated, or is trying to negotiate, "voluntary" export restraint agreements with Thailand and other suppliers of manioc, all developing countries. It proposes to limit duty-free imports of U.S. gluten feed to 3 million tons which is the average for 1981-83. Additional quantities would, presumably, face a prohibitive import levy.

The European Community argues that it is in the U.S. interest to accede to their request because it would reduce EC grain surpluses. The U.S. can point to the fact that the problem is self-inflicted - all the EC has to do is to get on with reducing its excessive grain support prices that make grain substitutes attractive.

In any event, the EC has the right, under Article XXVIII of the GATT, to seek relief. The U.S. is entitled to compensation in the form of equivalent concessions on other products. If the offer is unsatisfactory, the U.S. has the right to retaliate by withdrawing concessions on EC exports to the U.S.

The U.S. is, rightly, concerned that EC action against gluten feed may be the entering wedge for EC action on soybeans, it is, therefore, hinting at U.S. retaliation against EC wine, beer and soft cheese. As with earlier EC attempts to impair the duty-free entry of soybeans by a tax on vegetable oil, the threat of rehabilitation is likely to be sufficient to discourage EC action against gluten feed. Or it may prompt the EC to offer alternative concessions of equal value.

Understandably, retaliation is the course favored by our farmers, the corn refiners and probably some wine growers. Our Deputy Trade Representative, Mr. Lighthizer, is reported to have said that retaliation is probably inevitable because the $2 billion compensation the U.S. has in mind would not be acceptable to the EC.[11] But we have to keep in mind that it is the American consumer who would end up paying the bill, in terms of higher prices for the products which are selected for retaliation. From the consumer's point of view, accepting fair compensation is the preferable option. Presenting a stiff bill for compensation may be an appropriate tactic to deter EC action; but should it come down to a choice between compensation and retaliation, we need to ask ourselves how far we are prepared to go in the defense of American corn refiners who already are protected against competition from foreign sugar and heavily subsidized by the public on their ethanol production.

So far as EC export subsidies are concerned, the situation is not as confused as it is often made out to be. It is clear that the EC has greatly increased its export share in wheat and flour, sugar, beef and dairy products and that this would not have been possible without mounting export subsidies.

Agricultural products are exempted from the GATT prohibition on export subsidies. But export subsidies are permitted only to the extent that they are not used to gain more than an equitable market share. Equitable share has been defined as the historical share. This is an old GATT rule which was introduced at the insistence of the United States in the 1950s when we supported market prices above world market levels and could not have exported without subsidies. The definition of equitable share was reaffirmed and made more precise in the Subsidy Code negotiated in the Tokyo Round, which provides for a recent representative 3-year base period.

This formula, which would place a cap on the EC export share, offers a reasonable basis for a compromise with the EC. It would avoid an escalation of export subsidies that could become extremely costly to all exporting countries concerned. I believe that the EC would be receptive to such a compromise since it would fit in with their current efforts to limit the budgetary cost of farm subsidies. An interim agreement along these lines need not prejudice continuing efforts, in GATT and in the OECD, to review and remove the various devices now being used to subsidize agricultural exports directly or indirectly.

I realize that pragmatic solutions are not as popular, or psychologically satisfying, as calls for retribution. And occasionally, a "shot-across-the-bow" may help to bring a reluctant competitor to the bargaining table. More likely, even our present limited export subsidy programs will invite counter-moves by the other side. I recall that we gave our flour millers about 800,000 tons of publicly owned wheat free of charge to enable them to overcome heavily subsidized EC competition in the Egyptian flour market. The EC responded by cutting its price and they are back in that market. Export subsidies may seem a cost-effective way of expanding our sales - until we stop to think what the competitor is going to do.

FOOTNOTES

1. For a comparison of levels of agricultural support and protection in the EC, Japan, and the U.S., see my interview with Robert Angel, published by the Japan Economic Institute in February, 1983.

2. Assuming no changes in agricultural policies. Source: EC Commission, Green Europe Newsletter, E-24, 1984.

3. Set by tariff and levy receipts plus up to 1% of the proceeds of the standardized value added tax.

4. "EC Ministers adopt major farm reforms", European Community News, April 9, 1984.

5. See, for example, "The EEC slaughters a sacred cow", The Economist, April 7, 1984.

6. Japan Economic Institute interview on "Agricultural Protectionism: Japan, U.S. and the EC."

7. Forum for Policy Innovation, "The Agricultural Protection Level of Japan in an International Comparative Perspective", Research Report No. 1, December 1983.

8. The government has been paying as much as $1,000 a ton for wheat grown on diverted rice land.

9. Based on projections by Resources for the Future in cooperation with Economic Perspectives, Inc. Published in Joint Council for the Food and Agricultural Sciences, Reference Document: Needs Assessment for the Food and Agricultural Sciences, Washington, D.C., January 1984.

10. This projection, which assumes no significant changes in Japan's agricultural policies, is roughly consistent with projections by the author and by USDA. (See Fred H. Sanderson, "Managing our Agricultural Interdependence", in Castle and Hemmi (ed.), U.S.-Japanese Agricultural Trade Relations, RFF, 1982). It implies that the recent slowdown in Japanese agricultural import growth is due to temporary factors - the slowdown in economic activity, the strong dollar which contributed to a cost/price squeeze on Japanese livestock producers, and the diversion of surplus rice to livestock feeding.

11. "U.S. Retaliation Probable on EC Export Limits", Journal of Commerce, December 13, 1983.

Senator **Pressler**. Thank you.

I think the U.S. relationship with the European Economic Community in agricultural trade is one of the most difficult ones to understand and most fascinating. I will have some questions for you, but I appreciate very much your presentation here.

I shall next call on Mr. Ed Jaenke, who is with E.A. Jaenke Associates, Washington, DC.

By the way, Mr. Sanderson, would you tell the committee what Resources for the Future does? Also, Mr. Jaenke, would you tell us what E.A. Jaenke Associates do.

Mr. **Sanderson**. Resources for the Future is a nonprofit research organization.

Senator **Pressler**. Good. Do you concentrate on food problems around the world?

Mr. **Sanderson**. We have a national center for agricultural and food policy that deals with both domestic and international agricultural policy issues. It is headed by the former administrator of the Economic Research Service of the Department of Agriculture, Ken Farrell.

STATEMENT OF ED JAENKE, E.A. JAENKE ASSOCIATES, INC., WASHINGTON, DC

Mr. **Jaenke**. E.A. Jaenke Associates is a private consulting firm which specializes in international marketing and agricultural policy areas.

Taken in total, the United States has no well thought-through, comprehensive, long-range national policy and strategy for the use of our efficient and highly competitive agricultural plant.

Senator **Pressler**. That is a great statement. Would you read that again? I think it is absolutely true.

Mr. **Jaenke**. Taken in total, the United States has no well thought-through, comprehensive, long-range national policy and strategy for the use of our efficient and highly competitive agricultural plant.

Rather, we have a hodge-podge of often conflicting, uncoordinated, self-defeating actions that substitute for a coherent national direction. This is why I am pleased to be here today before this committee, and with your efforts to look into this question of international trade.

Despite the lack of a focused, coordinated effort to fully develop the potential, U.S. agriculture exports climbed rapidly and steadily during the late sixties and during the seventies, but during the eighties those exports have fallen off sharply, as you alluded to in your opening statement, Mr. Chairman, and more importantly the U.S. share of total world trade and agriculture products has dropped.

I understand the purpose of this hearing is to first explore the reasons for that decline, and second, to receive proposals and suggestions for reversing that trend. My testimony will be divided into two sections accordingly.

First, why have U.S. exports declined in the early eighties? No. 1, an overvalued dollar. Domestic economic policies, particularly the enormous and irresponsible budget deficits, have created serious disparities in the relative value of the dollar vis-a-vis nearly all other currencies in the world.

This makes our wheat, corn, meat, poultry, and other commodities much more expensive to the foreign buyer.

No. 2, world recession. The slowdown in economic activity in developed, newly industrializing, and developing nations has brought about a more cautious attitude among food buyers and importers.

No. 3, the global debt situation. This is particularly critical among those developing nations that experience rapid economic growth combined with increased debt obligations during the seventies.

No. 4, the high cost of ideology. The injection of ideological and foreign policy motives into the economic trade picture has been very expensive for American farmers. The embargo of 1980, and more recently the belligerent and bellicose utterances of national leaders have soiled the cloth of capitalistic trade relations, and cost the United States for perhaps a long time to come a major portion of its previous share of Soviet and Eastern European agricultural exports.

No. 5, a narrow view in trade policy. I refer to the failure to comprehend, or worse yet, to act responsibly on matters where long-range broad national interests should supersede the individual parochial interests. The negotiations over textiles with the Chinese, which have jeopardized a multibillion-dollar grain market and the recent prolonged squabble with the Japanese over several hundred million dollars' worth of beef imports, thereby risking some $7 billion of other agriculture exports are prime examples.

No. 6, domestic farm policies. Our agricultural policy and its sometimes shortsighted implementation has not been consistently growth or export oriented. In some cases U.S. domestic prices have been out of line with world markets, thus limiting our ability to trade. The PIK Program and similar efforts have encouraged expansion in other countries to compensate for our efforts to cut back here.

No. 7, high worldwide production. Generally, favorable weather throughout the world has contributed to large production and to slightly larger supplies in recent years.

No. 8, finally, and perhaps most importantly, the lack of a national strategy. We have not focused national attention on a strategy that sets direction and priorities for maximizing the benefits from agricultural exports. I refer to the benefits in the broadest sense, to the national security, to the economic welfare of those engaged in the agricultural industry, and more importantly, to the Nation's overall economic strength.

Now, the key question is what can be done to reverse the current trend and to create a more favorable climate for economic growth and trade development in food and agriculture. The second section of my testimony is devoted to that question.

The first and most important step is for the United States to officially and formally declare as a national goal the maximum development of our food and fiber capacity and the use of that development in international relations, trade, security, and development.

This will require action by both the executive and the Congress, with support from the private sectors and the general public. The determination and declaration of such a strategy is a prerequisite to establishing the many parts of a national effort to implement and carry out that goal.

Under that broad national policy umbrella, a number of specific steps may be suggested. No. 1, the use of bilateral supply agreements. Benefits to both parties and to market stability are among the advantages of greater use of bilateral supply agreements.

No. 2, credits, particularly intermediate term credits. Under the current world economic and trading conditions, the availability of credit is an indispensable tool to consummating trade contracts. Given the economic picture and debt structure of many of our potential customers, credit with terms longer than 3 years is not only realistic, but necessary. Government and congressional action is necessary in this area.

No. 3, expansion of Public Law 480. The inflation in commodity prices and costs over the years has masked a decline in Public Law 480's real benefits. This program has proven its effectiveness and should be significantly expanded, with particular emphasis on economic development in recipient countries.

No. 4, food must be recognized as a key ingredient in our overall national security policy. U.S. farm productivity is important not only to our national security, but to that of our allies. This is a security built on the assurance of plenty, not on the discredited idea that our Nation can force its will on another country by denying or threatening to deny exports of food.

No. 5, modernization of GATT. Some respected comprehensive system of referring international trade is essential. However, GATT, particularly as it relates to agriculture, is quite outdated and definitely limited in its ability to deal with the complex international trade world of the 1980's. Modernization and restructuring are essential.

No. 6 is cargo preference. Given the national decision to support a U.S.-based maritime function, careful consideration should be given to more efficient and direct methods of subsidization and support. The current cargo preference approach is restrictive and harmful. It transfers that subsidy cost to agriculture.

No. 7 is high value commodity exports. Experts are virtually unanimous on the opportunity for growth in exports of high value food products, processed food products. Here the United States is far behind other nations. There are problems, of course, but an overall effort must be made to encourage the development in this area.

No. 8, economic development. The United States continues to lag far behind other nations, other developed nations in its proportionate share of development aid to poor nations. It is essential to the future markets of U.S. agriculture that economic development be accelerated in those 94 nations identified by the World Bank as low- and middle-income countries.

The experience in Japan, Korea, Taiwan, Mexico, India, and many other countries has shown that trade expansion can result when economic improvement occurs. If one were to select the most important step necessary to growth in U.S. agriculture during the next decade, the choice would have to be strengthening of development efforts in those countries where the greatest potential for commercial food imports is the greatest.

Finally and last is the need to focus the issue. Given the present structure of the Congress, it is virtually impossible for any one committee to act on measures as complex and diverse as those which make up the overall agricultural export problem, yet with the future growth of agriculture almost totally dependent upon sales outside the continental United States, this must be accomplished.

This is why the Congress needs to take the initiative in establishing a commission on agricultural exports. That commission can cross the jurisdictional borders of various committees of Congress, recruit the best expertise from the private sector, and help to establish a long-range policy and direction to our agriculture and export effort.

The initiative by Farmland Industries and others to encourage the establishment of such a commission could well be a major milestone toward meeting the real needs not only of farmers but of all those who are involved in agriculture and the entire economy of the United States. I would urge prompt action by the Congress on establishing this study commission.

Thank you, Mr. Chairman.

[Mr. Jaenke's prepared statement follows:]

TESTIMONY OF E. A. JAENKE, PRESIDENT
E. A. JAENKE & ASSOCIATES, INC.
BEFORE SENATE FOREIGN RELATIONS COMMITTEE

TUESDAY, JUNE 26, 1984

Barriers to U. S. Agricultural Exports

"An enigma wrapped in a riddle." To borrow from Churchill's wartime description of the Soviet Union, many national leaders view agricultural policy, particularly trade policy, as an enigma wrapped in a riddle.

Based on the past performance of these leaders, one could conclude that as a nation we often take for granted the very significant role of the U.S. food and agriculture industry plays in our national economy. And more important, in terms of its potential, we tend to almost totally overlook and even neglect that vital industry. Taken in the total, the United States has no well-thought-through, comprehensive, long range national policy and strategy for the use of our efficient and highly competitive agricultural plant. Rather we have a hodge-podge of often conflicting, uncoordinated, self-defeating actions that substitute for a coherent national direction.

That is why I am pleased to see this subcommittee of the Foreign Relations Committee taking an interest in agricultural trade, its problems and its potential. And I am pleased to be with you today to offer suggestions.

Despite the lack of a focused, coordinated effort to fully develop the potential, U.S. agricultural exports climbed rapidly and steadily during the late sixties and during the seventies. But during the eighties those exports have fallen sharply and more importantly the U.S. share of total world trade in agriculture products has dropped.

I understand the purpose of this hearing is to first explore the reasons for that decline and second to receive proposals and suggestions for reversing that trend. My testimony will be divided into two sections accordingly.

First, why have U.S. exports declined in the early eighties?

1. An overvalued dollar. Domestic economic policies, particularly the enormous and irresponsible budget deficits, have created serious disparities in the relative value of the dollar vis-a-vis nearly all other currencies in the world. This makes our wheat, corn, meat, poultry and the other commodities much more expensive to the foreign buyer.

2. World recession. The slow-down in economic activity in developed, newly industrializing and developing nations has brought about a more cautious attitude among food buyers and importers.

3. The global debt situation. This is particularly critical among those developing nations that experienced rapid economic growth combined with increased debt obligations during the seventies.

4. The high cost of ideology. The injection of ideological and foreign policy motives into the economic trade picture has been expensive for American farmers. The embargo of 1980 and more recently the belligerent and bellicose utterances of national leaders have soiled the cloth of capitalistic trade relations and cost the U.S., perhaps for a long time to come, a major portion of its previous share of Soviet and Eastern European agricultural imports.

5. The narrow view in trade policy. I refer to the failure to comprehend or worse, to act responsibly on matters where the long-range broad national interest must supersede the individual parochial interests. The negotiations over textiles with the Chinese which are jeopardizing a multi-billion dollar grain market and the recent prolonged squabble with the Japanese over a possible several hundred million dollars worth of beef imports, thereby risking some $7 billion of other agricultural exports, are both prime examples.

6. Domestic farm policies. Our agricultural policy, and its sometimes short-sighted implementation, has not been consistently growth or export orientated. In some cases U.S. domestic prices have been out of line with world markets, thus limiting our ability to trade. The PIK program and similar efforts have encouraged expansion in other countries to compensate for our attempts to cut back here.

7. High worldwide production. Generally favorable weather throughout the world has contributed to large production and slightly larger supplies in recent years.

8. Finally, and perhaps most important, the lack of a national strategy. We have not focused national attention on a strategy that sets direction and priorities for maximizing the benefits from agricultural exports. I refer to benefits in the broadest sense -- to the national security, to the economic welfare of those engaged in the agricultural industry, and to this Nation's overall economic strength.

Now the key question is what can be done to reverse the current trend and to create a more favorable climate for economic growth and trade development in food and agriculture. The second section of my testimony is devoted to that question.

The first and most important step is for the United States to officially and formally declare as a national goal the maximum development of our food and fiber capacity and the use of that development in all facets of international relations, trade, security, and development. This will require action by both the Executive and the Congress, with support from the private sectors and the general public. The determination and declaration of such a strategy is a pre-requisite to establishing the many parts of a national effort to implement and carry out that goal.

Under that national policy umbrella a number of specific integrated steps should be considered.

1. The use of bilateral supply agreements. Benefits to both parties and to market stability are among the advantages of the greater use of bilateral supply agreements.

2. Credits, particularly intermediate term credits. Under the current economic and trading conditions the availability of credit is an indispensible tool to consummating trade contracts. Given the economic picture and debt structure of many potential customers, credit with terms longer than three years is not only realistic but necessary. Governmental and Congressional action is necessary in this area.

3. Expansion of Public Law 480. The inflation in commodity prices and costs over the years has masked a decline in P.L. 480's real benefits. This program has proven its effectiveness and should be significantly expanded with particular emphasis on economic development in recipient countries.

4. Food must be recognized as a key ingredient in our overall national security policy. U.S. farm productivity is important not only to our own national security but also to that of our allies. This is a security built on the assurance of plenty, not on the discredited idea that our nation can force its will on another country by denying, or threatening to deny, exports of food.

5. Modernization of GATT. Some respected comprehensive system of refereeing international trade is essential. However, GATT, particularly as it relates to agriculture, is quite outdated and definitely limited in its ability to deal with the complex international trade world of the 1980's. Modernization and restructuring are essential.

6. Cargo preference. Given the national decision to support a U.S. based maritime function, careful consideration should be given to more efficient and direct methods of subsidization and support. The current cargo preference approach is restrictive and harmful. It transfers the subsidy cost to agriculture.

7. High value commodity exports. Experts are virtually unanimous on the opportunity for growth in exports of high value food products. Here the United States is far behind other nations. There are problems, of course, but an all out effort must be made to encourage the development of high value export markets.

8. Economic development. The U.S. continues to lag far behind other nations in its proportionate share of development aid to poorer nations. It is essential to the future markets of U.S. agriculture that economic development be accelerated in those 94 nations identified by the World Bank as low and middle income countries. Experience in Japan, Korea, Taiwan, Mexico, India, and many other countries has shown the trade expansion

that can result when economic improvement occurs. If one were to select the most important step necessary to growth in U.S. agriculture during the next 10 years, the choice would have to be the strengthening of development efforts in those countries where the potential for commercial food imports is the greatest.

9. Lastly, the need to focus the issue. Given the present structure of the Congress, it is virtually impossible for any one committee to act on measures as complex and diverse as those that make up the overall agricultural export problem. Yet with the future growth of agriculture almost totally dependent upon sales outside of the continental United States, this must be accomplished. That is why the Congress needs to take the initiative in establishing a commission on agricultural exports. That commission can cross the jurisdictional borders of various committees, recruit the best expertise from the private sector and help to establish a long range policy and direction to our agriculture and export effort.

The initiative by Farmland Industries and others to encourage the establishment of such a commission could well be a major milestone towards meeting the real needs, not only of farmers but of all those who are involved in agriculture and the entire economy of the United States. I would urge prompt action by the Congress on establishing this study commission. Thank you.

Senator PRESSLER. Thank you for your excellent statement. I shall have some questions for you, and I am sure Senator Biden and Senator Boschwitz will also have questions.

Next I call on Dr. Mark Edelman of South Dakota State University, who has gotten a great deal of publicity recently in South Dakota for a farm survey he conducted.

We are very happy to have you here, Dr. Edelman.

Senator BIDEN. Mr. Chairman, may I ask a question before you begin? How did a guy from South Dakota come here? I thought maybe you would want to have our neighboring State's view on this.

Senator PRESSLER. Well, I think it is good to hear from distinguished South Dakotans occasionally, and we can hear from some Delawareans, too, at some future point.

Senator BIDEN. Welcome, Doctor. I am only kidding, of course. [Laughter.]

STATEMENT OF MARK A. EDELMAN, AGRICULTURE AND PUBLIC POLICY ECONOMIST, SOUTH DAKOTA STATE UNIVERSITY, BROOKINGS, SD

Mr. EDELMAN. Thank you.

It is my pleasure to visit with you today concerning the future direction of international trade policy and the potential impact on U.S. agriculture. I believe that the impacts of agricultural trade are among the most profound determinants of the future health and wealth of agriculture in rural communities.

Today I wish to report to your distinguished committee the results and some of the implications of the recent survey that we conducted in South Dakota. Our South Dakota effort is 1 of 17 States, a polling effort on the part of 17 States. The multistate results will be available, hopefully, some time by August.

Senator PRESSLER. You surveyed 17 States?

Mr. EDELMAN. We did not do 17 States. We did South Dakota, but we are part of a national polling effort in this regard.

Senator PRESSLER. OK. Where are the 17 States?

Mr. EDELMAN. They are dispersed across the Nation.

Senator PRESSLER. Do we have a list of the States?

Mr. EDELMAN. That is not in the testimony. I can provide that to you afterwards.

Senator PRESSLER. OK. Were they in the East, West, North, and South?

Mr. EDELMAN. That is right.

Senator PRESSLER. You do not happen to remember if there were some Eastern States?

Mr. EDELMAN. There were Eastern States.

Senator PRESSLER. Was Delaware one of them?

Mr. EDELMAN. I do not remember that offhand.

Senator BIDEN. I think he is trying to get my attention, Doctor. [General laughter.]

Mr. EDELMAN. We will submit that.

[The material referred to follows:]

NATIONAL POLLING OF 17 STATES

The following States were part of a nationwide farm survey: Illinois, Indiana, Kansas, Michigan, Minneota, Nebraska, Ohio, South Dakota, Wisconsin, Idaho, Washington, Alabama, Florida, Oklahoma, South Carolina, Texas, and Maryland.

Mr. EDELMAN. I believe that our effort in South Dakota is distinct in two critical respects. One is, we asked some critical questions on international trade that were not asked in the surveys of other States. And second, in South Dakota, as you well know, Senator, our State has a diverse agriculture. In the eastern section, we are more related to the corn belt agriculture. And, in the western part of the State, we are more akin to rangeland agriculture.

So we were able to separate the attitudes of various producers by their particular commodity interest, and I will comment on those differences in opinion as we look at some of the results of the survey questions.

The first important question that we did ask on international trade was simply a very conceptual question of how should international trade be organized? We provided three conceptual options. One was the open market concept that is embodied in the GATT agreements. The second approach was the strategy of moving toward a market cartel or developing more agreements with producing nations. The third approach was to go the direction of developing more agreements with our customer nations.

The results of that question indicated that only 18 percent of our producers favored more agreements with food exporting nations. And we were about evenly split in terms of those producers who favored the open market concept and those producers who favored following the strategy of moving toward more agreements with customer nations.

I must point out, too, that about 1 in 4 of the respondents decided to mark either undecided, or decided not to respond. So on international trade questions in this survey, we found that there is a considerably higher degree of undecided than on the questions dealing with domestic commodity programs.

I might also add that on this question, there were no significant differences across the commodity interests. We might interpret the results to generally affirm our recent dual policy approach of pursuing long-term agreements where appropriate, and also strengthening GATT through multilateral trade negotiations.

If anything, I would suspect that the present sentiment of producers has shifted toward customer agreements to protect our share of the international markets. I think that might be expected, given the recent shrink in world trade, and also the growth in proportion of trade with Third World nations and Communist countries that may have a tendency not to belong to the GATT organization.

The second set of questions that we asked on international trade was to determine whether respondents agreed with nine specific strategies. The first strategy that we asked was, should the United States not make any great effort beyond previous policy in reference to what should the United States do to develop exports?

The first strategy was not to make any great effort beyond previous policy. About 71 percent of the producers disagreed with that.

In other words, 71 percent think we ought to do something in addition to what our previous policy was.

The second strategy was to establish an international trade marketing board. Two-thirds of our producers were in agreement with that concept.

The third strategy was lower Federal budgets to reduce the value of the dollar and make the United States more competitive.

Senator **Pressler**. Did they have any suggestions for how we do that?

Mr. **Edelman**. Yes, they did. The response to that particular question is not included in my prepared testimony, but the response of the producers essentially indicated that generally they are not in favor of increasing taxes. They are more in favor of cutting spending across the board, even if it means cutting farm program spending, at least in our State.

Senator **Pressler**. How many were in the sample you used?

Mr. **Edelman**. It was a randomly selected sample of—well, 1,500 farmers and our response rate was about 32 percent, which came out to be a response of 480.

Senator **Pressler**. Now, these were all farmers or ranchers?

Mr. **Edelman**. Farmers or ranchers. We used the crop and livestock reporting list, which we believe is the most complete mailing list of farmers and ranchers in South Dakota.

Senator **Pressler**. Four hundred is a big enough sample to get a scientific response.

Mr. **Edelman**. It is about 1.3 percent of the farmers in South Dakota, and we believe that is an adequate sample.

Senator **Pressler**. I know in a lot of the political polls, they say you have at least 400 to 600 responses to make it representative. Four hundred would be at the bottom end of that scale.

Mr. **Edelman**. As I continue through the strategies here, about 60 percent agree with providing more food aid to hungry nations; 50 percent agree with expanding more farmer-financed foreign market development programs. Those first five strategies are ranked in order of the most significant or the biggest difference in terms of what farmers would agree with.

As we move to No. 6 and No. 7, it is less clear as to the direction the producers think we ought to go on those two particular strategies.

Senator **Pressler**. Now, question No. 5, expand more farmer-financed foreign market development programs. How was that question explained? If a farmer said what does that mean, what was your response? Was the survey conducted by telephone or by mail?

Mr. **Edelman**. This was a mail survey, conducted at the end of February and the beginning of March.

Senator **Pressler**. The question was asked as it is written here?

Mr. **Edelman**. That is right. The strategies are in quotes. Well, the ones that are not in quotes are exactly as printed on the survey.

Senator **Pressler**. Question No. 6. I do not know if people could understand that question. "Match the export subsidies of our competitors." This is a point Mr. Sanderson made. Surveys can get kind of confusing. I see that 42.5 percent answered the question "not sure." I wonder if they understood the question.

Mr. **Edelman**. There is a high probability of that. When we designed these surveys for the agricultural producers, we started with questions that were more in detail, and the problem was, the more detail you put into the question, the less of a response you get.

So we are not going to make major technical decisions out of the survey, but you will get an indication of what the general feeling of producers are. And that may be one of the problems with question No. 6.

The two things that we did find out that farmers were generally in disagreement with were (1) to encourage lower trade barriers for food importing nations by lowering our own import barriers, and second, No. 9, to lower U.S. support prices to be competitive in world markets. We found a large percentage disagreed with that approach.

The last question that we asked dealt with budget priorities and indirectly dealt with international trade. We asked the question, if only limited Government funds are available for farm programs which of the following should get the top funding priority? The percentage or the option that had the highest percentage was export expansion and market development. There was a difference across the commodity interest. We found that the beef producers and livestock producers were pretty evenly split on soil conservation and market development.

However, the grain producers overwhelmingly picked export development as the first choice, and then price and income supports as second, and soil conservation as third.

I might add some additional thoughts and conclusions. After looking over the whole survey, I think that we can conclude that agricultural producers are generally in favor of consistency in policy and decisionmaking institutions with long-term objectives. That is not only in regards to questions on international trade, but also from the other questions on domestic farm policy that we asked about in the survey.

Second, producers favor market growth that is provided by world markets, but not at the expense of at least some adequate minimum protection from unfair trade practices or from the instability that is caused by major swings in exchange rates and other macropolicies.

Third, producers tend to favor fair and improved access to world markets and do not mind paying to develop world markets, if that is what it takes.

Finally, a fourth of the producers did not feel knowledgeable or certain enough about the probable consequences of specific trade strategies to respond with an opinion. And then I go on to flesh out some of these concepts in the following.

Now, today, I am not going to suggest that we ought to revise our international monetary institutions to suit agriculture. Given today's alignment of the world, coalitions of interests across nations are required to revise international institutions such as the capital markets. The only thing I would point out is when we go from an inflationary economy to a pay-as-you-go economy, the impact of the policy change is magnified on our exchange rate, because we have a key currency in international trade. So it seems to me, we are forced to absorb wider swings in currency values as other nations holding our currency reappraise our new economic course. And I believe that is what has been happening to the value of the dollar.

The producers responded to this instability caused by exchange rates by, No. 1, recommending or at least having a high degree of interest in balancing the budget as a way to reduce interest rates and potentially lower the value of the dollar. I would tend to agree with their assessment of the potential impact of this strategy.

In addition to that, the producers continue to have an interest in minimum protection, and that indicates they want some kind of minimum protection from instability created by a relatively open system of international trade and from repeat major swings in flexible exchange rates and from unfair trade practices.

Beyond the instability created by the exchange rates, I think one of the things that could definitely help in discussions of trade amongst producers is a clear definition of what is fair and what is unfair trade. Perhaps clearing up this definitional concept would probably be the most single positive thing that could be done and accomplished through GATT.

For example, Canada has a program for its pork producers that is regarded by U.S. pork producers as an unfair subsidy program. But when we compare the concept of the Canada pork program, we find it is similar in some respects to the program that we have for U.S. wheat and feed grains. I guess the point is, how do we define where the deficiency payment level becomes an unfair subsidy for exports.

Most producers do not mind competing on a fair playing field or a level playing field, as long as everyone understands the definition. If such political definitions are not found, however, perhaps we may be forced to expand U.S. meat import limits to pork, or develop a livestock deficiency payment program of our own.

Import restrictions, of course, make any export expansion more difficult and trade wars more likely; so a strong definition could eventually reduce the risk of future trade wars.

I believe from the survey, we can conclude that producers are interested in an improved access to markets. At least in our State, the producers tended to favor an export marketing board concept. I think that farmers believe that this option lends itself to improved access. Also, producers were in favor of farmer-financed export market development.

Finally, I think we also have to talk about facilitating the adjustment. The rules of our economy have changed from "Buy now and pay later with inflated dollars" to "A penny saved is a penny earned," or "Save before you buy." When the rules of the economy were changed in 1979, many producers were caught with their financial house sitting on a poor foundation. Now, survival of the fittest will take place, and some will not survive.

For those in this group, I believe it is imperative that they grasp control of their financial management and develop a plan for working out of their present situation, whether that means that they are going to remain in agriculture out of it.

There are two possible policy tools that may help alleviate some of the stress for those on the margin. One is rural development or enterprise zones and retraining targeted toward the regions that are under stress.

The second that might help is improved financial, marketing, and production management training. As we move toward deregulation in agriculture—if that is the direction that we are going to head—management of farm and ranch businesses become more complex. Those who have developed their basic discipline and the management tools, will be better equipped to anticipate and to adapt to their changed environment.

Thank you, Mr. Chairman.

[Mr. Edelman's prepared statement follows:]

AGRICULTURAL TRADE AND ATTITUDES OF AGRICULTURAL PRODUCERS

DR. MARK A. EDELMAN, AGRICULTURAL POLICY ECONOMIST
SOUTH DAKOTA STATE UNIVERSITY

MR. CHAIRMAN,

It is my privilege to visit with you today concerning the future direction of international trade policy and the potential impact on U.S. Agriculture. I believe that the recent and potential future shocks to agricultural trade are among the most profound determinants of the health and wealth of U.S. agriculture and rural communities. Thus, you are to be commended for calling this hearing on the future direction of trade policy.

I wish to report to your distinguished committee, the results and implications of a recent survey of South Dakota agricultural producers that included several questions on international trade policy.

The survey was sponsored by the South Dakota Agricultural Experiment Station and Cooperative Extension Service. The purpose of the survey was to collect information as input into the 1985 farm and food policy debate. South Dakota was one of 17 states cooperating in a national polling effort.

The multi-state results will not be available until August. However, I believe the results of our state survey to be unique for two reasons. First, we asked two critical questions on international trade policy that were not asked on the other state surveys.

Second, South Dakota is representative of two distinctly different types of agriculture. The eastern part of the state is northwestern cornbelt agriculture while the western part of the state is primarily western rangeland agriculture. Therefore, Dr. Larry L. Janssen, the co-coordinator of the survey, and I were able to separate the respondents into representative groups of each type of agriculture. I will be commenting on how these groups varied in their responses as I review the major findings of the survey.

Let me first point our that our mail survey was conducted during February and March of this year. We received a strong response rate of 32 percent. Our respondent sample represented a cross-section of approximately 1.3 percent of the agricultural producers in a state where agriculture is the largest industry. Our randomly selected sample of agricultural producers was drawn from our Crop and Livestock Reporting Service list, which we believe to be the most complete list of farmers and ranchers in the state.

THE SURVEY RESULTS

The most significant agricultural trade policy question that we asked in our survey was designed to determine the most preferred approach for conducting agricultural trade. The question was, "How should international trade be organized?" We provided the respondents with three conceptual choices: (1) open markets, (2) agreements with producing nations, and (3) agreements with customer nations.

- 18.1 % of the respondents favored "more agreements with other food exporting nations to control production and raise prices."
- 26.5 % favored "strengthening the General Agreement on Tariffs and Trade (GATT) to provide a relatively open market for all food exporting and importing countries."
- 30.0 % favored "more agreements with food importing nations to insure that the U.S. receives a minimal share of the international markets."
- 25.4 % were undecided, which is a significantly higher percent than was true for the questions dealing with domestic commodity programs.

On this question, there were no significant differences across commodity interests. One might interpret the results to generally affirm the recent dual policy of pursuing long-term agreements (LTA's) where appropriate and strengthening the GATT open market approach through multi-lateral trade negotiations. If anything, I would suspect that the present sentiment has shifted more toward customer agreements to protect our share of the international markets. That might be expected given the recent shrink in total world trade and the growth in trade with the non-GATT nations.

In addition, the survey shows the weakest support to be for a "food OPEC" or grain cartel. This is an idea that has received some media attention from time to time.

The second question asked was, "What should be done to increase U.S. export sales? The question determined whether the respondents agree or disagree with nine specific strategies.

1. The U.S. should "not make any great effort beyond previous policy."

7.9 % AGREE 71.1 % DISAGREE 21.0 % NOT SURE

There were no significant differences in opinions across commodity interests.

2. Establish an international trade marketing board.

66.7 % AGREE 3.9 % DISAGREE 29.4 % NOT SURE

There were no significant differences in opinions across commodity interests.

3. Lower federal budget deficits to reduce the value of the dollar and make the U.S. more competitive.

62.9 % AGREE 11.3 % DISAGREE 25.8 % NOT SURE

There were no significant differences in opinions across commodity interests.

4. Provide more food aid to hungry nations.

60.8 % AGREE 15.4 % Disagree 23.8 % NOT SURE

Dairy producers were more strongly in favor of aid and less undecided.

5. Expand more farmer financed foreign market development programs.

50.0 % AGREE 15.9 % DISAGREE 34.2 % NOT SURE

Wheat and beef producers were more strongly in favor of this strategy than others.

6. Match the export subsidies of our competitors.

42.5 % AGREE 15.0 % DISAGREE 42.5 % NOT SURE

Livestock producers were evenly split between agree and disagree, however, grain producers were more strongly in favor of matching export supsidies.

7. Set up a two price plan with a higher price for commodities used in the domestic market and let exports sell at the world market price.

34.2 % AGREE 37.1 % DISAGREE 32.7 % NOT SURE

There were no significant differences in opinions across the commodity interests.

8. Encourage lower trade barriers for food importing nations by lowering U.S. import barriers.

30.2 % AGREE 37.1 % DISAGREE 32.7 % NOT SURE

There were no significant differences in opinions across the commodity interests.

9. Lower U.S. support prices to be more competitive in the world markets.

20.2 % AGREE 47.8 % DISAGREE 32.1 % NOT SURE

Of those expressing an opinion, livestock producers were about evenly split on the support price issue. However, grain producers more strongly disagreed with the strategy of lowering support prices to be competitive in the international markets.

The last question was determined budget priorities and indirectly dealt with international trade. "If only limited government funds are available for farm programs, which of the following should get top funding priority?"

24.2 % favored soil conservation and erosion programs.

24.4 % favored price and income support programs.

39.4 % favored export expansion and market development.

12.0 % not sure.

There were major differences across commodity interests. Beef producers and all livestock producers were evenly split on soil conservation and market development, with price and income supports ranking third. Grain producers overwhelmingly picked export development as the first choice, price and income supports second, and soil conservation third.

ADDITIONAL THOUGHTS AND CONCLUSIONS

Summarizing the themes of all questions and responses in the survey, I believe the agricultural producers are generally in favor of consistency in policy and decision-making institutions with long term objectives that are not sensitive to short term changes. Second, producers favor market growth provided by world trade but not at the expense of adequate protection from "unfair" trade practices or from instability caused by major swings in exchange rates and other macro-policies. Third, producers tend to favor "fair and improved" access to world markets and don't mind paying to develop them. Finally, a fourth of the producers did not feel knowledgeable or certain enough about the probable consequences of the trade strategy options to respond with an opinion. These concepts are fleshed out in the following.

Instability Caused by Exchange Rates

First, the survey demonstrates that agricultural producers have increasingly recognized the connection between budget deficits, exchange rates, increasing imports and declining exports. However, what is increasingly most difficult to explain, is the continued strength of the dollar at a time when we are approaching $100 billion in annual currency outflows as signified by the trade deficit. The international capital market has such faith in the dollar that it is sucking up our currency like a vacuum cleaner--and, at a time when economic theory would suggest that increasing trade deficits should reduce the value of the dollar.

This phenomenon has to do with the dollar's role as a key international currency. The U.S. will always be susceptable to more extreme changes in the value of our currency as long as world exchange rates are flexible and the dollar is used as a medium of exchange and a store of value by a good share of the world trading nations outside of the U.S.

Now I'm not suggesting that we ought to revise our international monetary institutions to suit agriculture, as some have done. Given today's world alignment, a coalition of interests across nations are required to revise international institutions such as the capital markets. I am only pointing out that when we go from an "inflationary economy" to a "pay as you go economy" the impact of the policy change is magnified on our exchange rate because we have a key reserve currency in international trade. We are forced absorb wider swings in currency values as other nations holding our currency reappraise our new economic course. That is what has been happening to the dollar.

Short of revising the world monetary institutions, agricultural producers have demonstrated their interest in balancing the budget as a way to reduce interest rates and potentially lower the value of the dollar. I agree with their assessment of the potential impact of that strategy.

In addition, the producers' interest in minimum protection indicates that they want some minimum protection from instability created by our relatively open system of international trade, from flexible exchange capital markets, and from "unfair" trade practices.

What is Fair and Unfair Trade?

The question of what is an "unfair" or "fair" trade practice is and important one. Perhaps clearing up the definitional concepts would be the single most positive thing that could be accomplished through GATT.

For example, Canada has a program for pork producers that is regarded by U.S. pork producers as an unfair export subsidy program. I also understand that the Canadian program is similar to our deficiency program for wheat and feedgrains. At what point does an increase in the deficiency payment level become an "unfair" subsidy for exports.

Most producers don't mind competing on a level playing field as long as everyone understands the definition. However, if such political definitions are not found, perhaps we may be forced to expand U.S. meat import limits to pork or develop a livestock deficiency payment program of our own. Import restrictions make any export expansion more difficult and trade wars more likely. So, a strong definition could reduce the risk of future trade wars.

Fair and Improved Access to Markets

On our domestic institutions, producers in our state, at least, favor an export-import marketing board. I believe that this attitude is related to "fair" and improved access to world markets. Currently, trade is conducted in large part by multi-national corporations that do not necessarily hold allegiance to any one nation. An international trade marketing board might improve the access of U.S. producers to the world market if it could negotiate toe to toe with nations that attempt to undercut our loan rate and reduce our share of world markets.

In addition, export credit subsidies will not offset the impact of the macro-policies affecting agriculture without becoming a drain on the Treasury. A little credit may go a long way in increasing export sales and helping a potential customer through a short term financial pinch. However, broad credit subsidies have very little marginal increase in sales and simply reduce the effective price of the commodity by increasing treasury expenditures. Plus they can be viewed as being inconsistent with attempts by other commodity interests to limit U.S. imports.

Facilitating the Adjustment

Finally, I must say that the present outlook for international trade is for some gradual improvement but not for a return to the glory of the 1970's. As a result, about 20% of the nations farmers are experiencing financial stress due to their level of debt service.

The rules of the economy have changed from "buy now and pay later with inflated dollars" to "a penny saved is a penny earned" or "save before you buy".. When the rules changed, many producers were caught with their financial house sitting on a poor foundation. Survival of the fittest will take place and some won't survive.

For those in this group, it is imperative that they grasp control financial management and develop a plan for working out of their present situation--whether that means in agriculture or out of it.

There are two government policy tools that may help alleviate some stress for those on the margin. One is rural development and retraining targeted toward the regions of stress. The second program that may help is improved financial, marketing, and production management training. As we move toward deregulation in agriculture, management of the farm and ranch business becomes more complex. Those who have developed the basic discipline and management tools, will be better equiped to anticipate and adapt to their changed environment.

Senator **Pressler**. Thank you.

Is the survey in the other States finished? Have the results of the total survey been announced yet?

Mr. **Edelman**. No, it has not.

Senator **Pressler**. This is just for South Dakota?

Mr. **Edelman**. This is the South Dakota portion.

Senator **Pressler**. Good. This really is a unique effort to look into what farmers think about international trade. It is a very interesting survey. I have a number of questions for each witness, and the committee has prepared some questions for you as well.

First of all, let me turn our attention to the complex issue of the problems with Europe. I will address this to Mr. Sanderson. The export subsidy program and other EEC agricultural policies have proven very expensive. Do you feel that the increase in cost will force the EEC to reduce their expenditures in this area?

If they do reduce their subsidies, will it benefit U.S. exports, or are less costly techniques of protection likely to be substituted?

To follow up on that, you mentioned that agricultural products were exempt under GATT, but we have protested the corn gluten decisions. On what grounds are we able to protest the corn gluten issue at the same time the EEC argue that our Food for Peace sales abroad are basically subsidized sales?

All of this is a very wide-ranging question.

Mr. **Sanderson**. To start with your last question, I think Food for Peace is relatively immune from charges of export subsidization. That was not true 20 years ago when we started our program. We were accused by Canada and Australia of trying to dump our surpluses.

In the meantime, food aid programs have become generally accepted, and the European Community itself has become the second largest food aid donor. So I think of all the various methods of expanding our exports, food aid is probably the approach that is least likely to invite retaliation. It would cost our competitors a lot of money to also increase their donations of food to poor and hungry people.

There are other things, I think, that we might expand without fear of retaliation, such as the export credit guarantee program. The way I see it is, not as an export subsidy, but as our share, as the share of agriculture in helping developing countries which have gotten into a credit crunch in their present emergency.

I do fully expect that these credits will be repaid in time. But the more we get into traditional export subsidy programs, the greater the likelihood that we will provoke retaliation, with the result that we will not in fact expand our exports.

We have hoped for a long time that the European Community would gradually get tired of subsidizing its exports. The export subsidies have risen in the past 10 years from practically zero to $6 billion. But it took the present situation, in which their total budget is running up against the statutory limit on expenditures, which is set by levy receipts and tariff receipts plus 1 percent of the standardized value-added tax, to prompt them to impose some restraints.

In effect, they are broke. They are exceeding that limit and are unable to raise additional funds without going to the 10 member parliaments to ask for a change. That budget crunch has caused them to stop and think about limiting their agricultural support costs including, notably, export subsidies. I feel that this is probably a favorable time for us to act on the proposal which has been made not only by me, but by others, to try to implement the GATT compromise formula which would, in effect, put a ceiling on their share in the export market.

I think that would be progress from our point of view, because without that ceiling, we may see further increases in subsidization, once their parliaments act to raise the limit on their budget expenditures.

Did I answer all of your question?

Senator PRESSLER. Yes, I think so. I am going to return to the Common Market, but first I want to ask Mr. Jaenke a question. You suggest a commission in Congress because our committees have so much overlapping jurisdiction. As I understand it, the Canadians do have an export board, but they have the advantage of being neighbors to the United States, which has a commodities market to determining prices.

Some countries have two prices, one domestic and one foreign. But the argument is always made to me that we cannot do that because we are the big guys on the block, so to speak, and other nations use our futures market, and our loan rate on wheat to establish their prices.

Dr. Edelman found in his survey that at least farmers have a concept or a desire for an export board. Maybe we should clarify this. They did not say this should replace the commodities market? It was just a concept?

Mr. EDELMAN. It was just a concept.

Senator PRESSLER. First of all, Mr. Jaenke, do you think we could have such an export board? Do you think such a board would be effective? How would you envisage such a board?

Mr. JAENKE. Oh, we could, but I would hope not. But I think it is possible to have a commodity export board, ala a number of other countries in the world. It would involve bringing in a nonfree-enterprise approach that I do not think really would solve the problem that we face in our country.

Some of the steps that I have outlined are fairly logical and fairly easily adapted as solutions and would avoid a rather significant departure from our traditional free enterprise approach.

Senator PRESSLER. Now, in view of the recent decline in U.S. agricultural exports, can you estimate the size and value of ongoing losses of U.S. exports caused by foreign restrictions or unfair promotion efforts?

I do not know if any of you have any figures on that.

Mr. JAENKE. That would be very difficult. It would be quite subjective if you did. I think Fred is really one of the best experts on the EC, and that is one of the classic examples. In the last 4 or 5 years, we have seen some severe disruptions from Brazil in poultry markets and in some other commodities as well.

I am sure that one could develop a set of numbers in response to that question, but another could develop another set of numbers that might be just as defensible.

Senator PRESSLER. You do not have any numbers, do you, Mr. Sanderson?

Mr. SANDERSON. There is an analysis by the Foreign Agricultural Service dating about 6 months ago of the various factors causing the decline in our grain exports. Roughly speaking, what they found—and I think the findings are not unreasonable—is that for grains as a whole, about half of the decline in grain exports has been due to our loss of competitiveness and half is due to the falloff in overall world market demand.

Then they have looked into what made us lose or see our share reduced. They found that particularly in wheat, we did suffer both from foreign export subsidies like the increase in subsidized European Community sales of wheat, but of course our own macroeconomic policies were clearly a factor in that U.S. grain became more expensive in foreign markets.

I think that probably was a factor in the stagnation of our exports of feed grains to Japan as well. It is quite clear from the data that in Japan the livestock people got into a price/cost squeeze as a result of grain prices staying high in terms of yen, and with the recession in Japan the market for livestock products weakening, the ratio of product prices to feed costs deteriorated by about 10 percent. So there is a clear connection there.

Senator PRESSLER. Dr. Edelman, in your survey, question No. 9 indicated that lower U.S. support prices would make U.S. products more competitive in world markets; 47 percent disagreed. Does that contradict the other question, that farmers would take less spending if there were additional efforts to expand exports? Wasn't there an earlier question that said something to that effect?

Mr. EDELMAN. There is a degree of nonconsistency there.

Senator PRESSLER. But I think this is fascinating in terms of trying to find out what farmers themselves think about international trade. I guess one result of your study might be that farm organizations and Senators such as myself should make a greater effort at educating farmers about some of the issues involving agricultural trade. They seem to be eager to learn more about it, or maybe we could learn from them.

On question No. 6, 42.5 percent said they were not sure and then later on, you point out that a good percentage of them hesitated in terms of lack of information. I think that is probably true of our international trade programs. They are so complicated that the average person—probably not only the farmer, but the textile worker or car worker—even Senators—have a very difficult time understanding agricultural trade. It is a very difficult area of economics.

Mr. EDELMAN. That is true. For comparison purposes, the questions that we asked on domestic commodity programs——

Senator PRESSLER. I am sorry; I cannot quite hear you.

Mr. EDELMAN. The questions that we asked on domestic commodity programs, the not-sure category usually ranged 7 to 10 percent, rather than up in the 20 to 30 percent level.

Senator PRESSLER. So on the domestic questions, 7 percent would say I am not sure. On international trade questions, about 30 percent would say I am not sure.

Mr. EDELMAN. That is right.

Senator **Pressler**. There is also a common desire to cut imports and increase exports. Of course, we have to import in order to export. And we are doing that.

Our trade balance, except for agricultural trade, is very unfavorable. But, for example, in our relationship with Canada, I have been upset with the amount of Canadian hogs coming into a certain region of the United States. But overall, we have a favorable trade balance in agricultural products with Canada.

If we were to start a trade war, we would probably lose in terms of agricultural exports. That is always a hard thing to explain. How can I, as a Senator, explain to farmers if I hesitate to vote for something that essentially is a protectionist item because agriculture will get hurt the worst in a trade war?

Mr. **Edelman**. Well, on the one hand, you can point out the percentage of the market that you are talking about. And in the case of live hogs, it is a very, very small percent, less than 1 percent live hog imports represents the total market.

On the other hand, though, to some degree, pork producers do have a point that in terms of the concept, the Canadian program is smaller in concept to our deficiency payments for our wheat and feed grains. So they sit back and they look at the situation and maybe they think that well, we either have to fight it, or else we have to join them, one of the two.

Senator **Pressler**. Yes, the Canadian hog producer is given a comparative advantage.

Mr. **Edelman**. When does the deficiency payment or domestic program become an export subsidy?

Senator **Pressler**. That is right. That is the key to the European debate, isn't it?

Mr. **Jaenke**. [Nods affirmatively.]

Mr. **Sanderson**. [Nods affirmatively.]

Senator **Pressler**. How do the Europeans and the rest of the world look upon our Blended Credit Programs, or let's say our flour sales to Egypt, in which we know we probably will not get paid—do they look upon that as an export subsidy?

Would you either of you two care to take that one on?

Mr. **Sanderson**. Well, when I was in the State Department, I was concerned with food aid, and we always made an effort to draw a clean line between food aid and export subsidies. Food aid had to be provided on terms which were recognized internationally by the OECD Development Assistance Committee as economic assistance, as either outright grants or very soft credits with a long grace period, low interest rates, equivalent to, say, an 80 percent grant or something like that.

Export subsidies usually were just slight price cuts below the going market price. We have always felt that if we began to enter into the gray area between food aid and export subsidies, then we would get into real trouble because each food aid donor would try to outdo the other by making small price concessions under the heading of food aid, which were really designed to expand commercial markets.

Senator **Pressler**. Thank you.

Mr. Jaenke.

Mr. **Jaenke**. I had the dubious distinction or privilege of being the executive vice president of the Commodity Credit Corporation during the 1960's when we were heavily involved in subsidization.

And the last point that Fred made, and you alluded to it earlier in your question, needs to be emphasized. That is a rather quick step down, because if you make the decision, as we had to at those times, that your wheat is 2 cents over market and you reduce it 2 cents, then the next country retaliates with a cent and a half, and then you come back with a cent.

It is a matter of matching treasuries and billfolds, and the beneficiary is, of course, the importing country rather than the producers. It is a very dangerous thing.

With regard to your question, I do not think there is any question that a fair-minded evaluation would say that the Egyptian flour deal was a subsidized deal. It was done with the justification of firing a shot over the bow of the ship, as I think Secretary Block said. On that basis I think a lot of people can accept it, but it was clearly a subsidy

Senator **Pressler**. According to your survey, Dr. Edelman, and according to all of your comments, there is a feeling among U.S. farmers that they are very dependent upon export earnings, yet apparently they feel somewhat isolated from the international trade issues. They feel they are not being dealt with effectively.

How can an individual farmer help promote his products abroad? Could some type of producer-financed export program work?

Mr. **Edelman**. I think the results of our survey, injecting preliminary results from a couple of other States that were available, there is the indication that producers are willing to pay their fair share to develop export markets, if that is what it takes, through some checkoff program or something.

Senator **Pressler**. Direct overseas market promotions can be a key part of export development. Is the United States doing an efficient job of promoting its products abroad? How can our promotion efforts be improved? Do any of you want to take a crack at that?

Mr. **Jaenke**. We have a very well-developed market promotion or market development system with a variety of organizations. I think there are 35 or 40. I guess there are some things, though, that one would hope could be done, as an example, a greater degree of coordination among those groups. A wheat group promotes wheat; they are worried about wheat only; they do not worry too much about feed grains.

I think there is some opportunity for a more combined concentrated effort in exporting all U.S. agricultural commodities rather than just a specific commodity—corn, wheat, rice, or millet. The funding has been less than was optimum and could be increased.

As I point out in my paper, there is a lack of a national commitment to promote agricultural exports.

If we are going to look at the future a major effort on exports because that is the only significant area of growth potential

Senator **Pressler**. The survey mentioned a question on the farmers' attitude toward the proposal to reduce U.S. agriculture loan rates to make our farm products more competitive. Would such an action increase our exports?

I would address this to any of you. How low would we have to set our wheat and corn rates to be competitive on the world markets, and would domestic producers benefit more from higher loan rates or increased exports?

Who would like to take a crack at that?

Mr. EDELMAN. Well, penciling it out, you know, if the value of the dollar increases by 37 percent over a 3-year period. Then that means that if you are going to have a similar type of impact by reducing support prices, you are going to have to cut them by a third or more than a third, by 40 percent. So you are talking about a pretty big cut, if that is the approach that you want to take.

A dime reduction certainly will not offset the increase in the value of the dollar.

Mr. JAENKE. He is absolutely on target.

Senator PRESSLER. So you would confirm that.

Mr. JAENKE. In the case of price, I think it is generally conceded that we are overpriced, and it is due to the value of the dollar. In terms of the currency that the people who want to buy our commodities have to use our prices have gone up 30 to 35 percent, while farm prices have barely increased or in some cases have declined over the last 3, 4, or 5 years, that really is the source of the problem.

Mr. SANDERSON. I think one relationship between domestic farm programs and export performance is often overlooked. It is not so much the loan rates by themselves which may be the problem, but the entire system of incentives which has caused us to overproduce and caused us, many times, to resort to acreage reduction programs to limit the cost of our farm programs.

That kind of policy is disastrous for a sustained and growing export performance. In effect, when we launched our PIK Program, we made room for all our competitors. We vacated the market. This is something we have to think about. We have to look at the entire structure of incentives to production.

Senator PRESSLER. Our restraints have been of great assistance to Canada, Argentina, and Australia in the wheat area at least. Now, speaking of PIK, they talk about an export PIK Program which has been proposed as a means of increasing our exports, and also of combatting export subsidies used by other nations.

Could such a program get results and would it be cost-effective?

Mr. JAENKE. It is another way of financing your export subsidy. That is all it is. So I think you have to first look at the basic question. In some cases where we have to compete against subsidized French wheat or Brazilian poultry, maybe it might be useful as a one-shot deal to get their attention or to get them to the table, or to get a new GATT organization—or a restructured GATT, it might be justified. But as a long-range policy, it has no future.

Senator PRESSLER. With the European Economic Community we do not have agricultural products negotiated under GATT. Therefore, there is no way to stop wholesale export subsidies. Is there any hope that some changes might be made in this area?

Mr. SANDERSON. Well, I think that the European Community is clearly in breach of the GATT provision which does exist.

Senator PRESSLER. How are we going to enforce that? How can we persuade them?

Mr. SANDERSON. Essentially it comes down to bilateral negotiations. Now, we have tried to assert our rights in GATT on EC flour exports, and with rather unsatisfactory results.

You will remember that a GATT panel consisting of three Geneva representatives of other countries came up with a report which says in effect, yes, the Community has increased its share of the market by means of subsidies, but the situation is too inconclusive to make any recommendations.

They certainly did a disservice to the credibility of GATT when they came up with that decision. But we still have the option of going directly to the Community. We can tell them look here, this is the formula; you have a right to subsidize your exports up to your historical share. Let's negotiate the base period, and you stick to that. I think the chances of their agreeing are now much better than before, because they themselves, under the pressure of their budget limitations, have to do something of that sort anyway.

Then we can see whether we can reform the GATT, as Mr. Jaenke recommended.

Senator PRESSLER. I know Mr. Jaenke recommended also that the best prospects were in bilateral agreements. Well, the $64 question, which I will conclude with, will be addressed to each of you.

What legislative action should Congress take to improve our agricultural exports? That is my final question for each of you. If you want to respond in part in writing later, you may. What can we do? What do you recommend legislatively?

Mr. SANDERSON. I think it is much easier for me to think of actions that you should refrain from.

Senator PRESSLER. All right, fine.

Mr. SANDERSON. Like appropriating more and more funds for export subsidization. I do not think that is the way to go.

Senator PRESSLER. Would you include in that the target price program? Would you include in your definition our target price programs and so forth?

Mr. SANDERSON. Do you mean the domestic ones?

Senator PRESSLER Yes.

Mr. SANDERSON. In the domestic field, there are certain things, I think, that Congress can do. We should remove the self-inflicted handicaps that we impose from time to time on our exports. We should work out domestic programs which will not result in chronic surpluses and action to restrict production.

One way or another, we will have to adopt agricultural programs which restore equilibrium between supply and demand. There is just no way around it.

Mr. JAENKE. As I say in my testimony, I think the most important immediate requirement is to set a national policy that we are going to have a growth, have an export-oriented agricultural policy, that we are going to use our agricultural resource in commercial ways, in concessional ways, in foreign policy ways, for the benefit of our Nation.

Second, I think we must address the problem of the value of the dollar and take steps to bring our budget deficit down. Also, to perhaps explore the opportunities for some international banking arrangements that would stop the United States being the recipient of all the jolts in international financial markets.

And third, in the long-range picture, everything we can do to help these 94 most needy nations to develop their economies, that is where the markets for our farms are going to be in 1994. Anything we can do to help those economies grow and improve their income level, their economic level, is going to encourage our markets.

Mr. EDELMAN. I guess I would go along with many of the things that have been said. In terms of where I feel farmers are coming from, they want the growth of markets as provided by international trade, but they are not willing to give up at least a minimum level of protection from instability caused by major swings in exchange rates and other factors that cause instability from the international markets.

Second, whether it is done through a multilateral negotiation basis or a bilateral negotiation basis, I think anything that can be done to strengthen the definitions of what is fair trade and what is unfair trade and where do domestic programs become unfair export subsidy programs, that would help alleviate part of the present problem that has tended to create an atmosphere for a higher possibility of trade wars.

Senator PRESSLER. I will yield to Chairman Percy, who has another hearing underway. But an additional question to each of you after that is going to be what impact do organizations such as the Steel Caucus have? We get to fighting among ourselves unnecessarily sometimes. For example, the Steel Caucus has some legislation that Senator Heinz is proposing, which the agricultural groups are opposed to because they feel it would hurt them.

First of all, is that true?

But I will get to that question in just a moment.

Senator Percy.

The CHAIRMAN. Thank you, Senator Pressler, very much. I am delighted that you are conducting this hearing. I am sorry that I was not able to be here during the testimony that has been given, but I will read the written transcript.

Coming from Illinois, I generally believe, as Lincoln does, Heaven ought to do what we cannot do for ourselves, and obviously what individual farmers cannot do is promote sales, particularly to governments that purchase on their own.

What is the best way, in your judgment, that we can get the most cost-effective expenditures for Government efforts to promote sales of American agricultural products abroad? And we did install an incentive system whereby we paid bonuses to certain personnel serving abroad. I believe the guideline was—and I still do serve on the Export Commission of the President—that about 20 percent of the people covered by the program were able to earn up to 20 percent in bonuses, if I recall correctly, of their salary.

Do we have such a bonus system in the agricultural field? My basic question is, what are the kinds of things that can be done to really promote exports and expand demand from abroad? Any one of you can respond.

Mr. JAENKE. Well, here I go. Fools walk in, I guess. [Laughter.]

Right now, pending before the Congress, is a proposal to establish a Commission on Exports, the purpose of which is to cut across——

The **Chairman**. I cannot quite hear you.

Mr. **Jaenke**. I am sorry. Pending before the Congress right now, recently introduced, is a proposal, a joint resolution in the House and Senate to create a Commission on Exports, agricultural exports. The purpose of this is to solve a problem that many of us feel frustrated by, in that there are three or four different committees in the Senate and the same number in the House that have some relevant responsibilty toward areas which have affected agriculture exports, this committee being one, Ways and Means, Finance, and of course Agriculture and others.

This commission would try to focus the attention of each of these committees on the agricultural export situation. We have no coherent, well thought through national policy to guide and promote our actions in this area—where we clearly have a competitive advantage in the world, food and agricultural production. We have no coherent policy to develop and nurture that approach.

Second, in answer to a previous question by Senator Pressler, I think both Dr. Edelman and I have mentioned the value of the dollar as the single most important factor that has hurt exports over the last 2 or 3 years. He used the figure 37 percent. That is very close to the figure that I have used.

So something should be done to ease off those conditions which have caused the value of the dollar, vis-a-vis other currencies, to get so far out of line.

Third. The growth future of American agriculture lies in markets overseas, but not so much in Europe and Japan and the developed nations. It is in those less developed nations. So aid programs, development programs, whether unilateral, multilateral, bilateral, whatever other ways, to help the 94 less developed countries get their economies going so that they can afford to buy our soybeans, buy our corn, buy our meat and poultry.

Those would be the three steps that it would seem to me would be most important in the short and long run.

The **Chairman**. Do any of you happen to know whether or not the Department of Agriculture personnel abroad are under the Executive Bonus system?

[No response.]

The **Chairman**. Well, we will find out from other sources.

When I talk to Europeans about subsidies and their subsidizing agriculture, taking markets away from Third World countries where we have done a tremendous amount to help these countries, we try to develop them as customers, and yet they were subsidized, and our price is undercut by European countries—well, they say, you have price support programs, too. Everything is relative.

Can you give us some better idea as to the comparison between the United States and EC support costs, compared or relative to their respective total agricultural production values?

Mr. Sanderson.

Mr. **Sanderson**. Yes. I made an analysis for the years 1978 to 1980 of comparative support costs in the European Community, Japan, and the United States. I added the support provided by high import barriers where the cost is paid by the consumer and the support costs out of the budget.

The comparison showed that the total cost was $43 billion for the European Community, $22 billion for Japan, and only $9 billion for the United States. Now this, of course, was before our own budget support costs escalated.

The CHAIRMAN. Could you add to that the figure that would give us the size of the U.S. support costs, varied relative to the total agricultural output in recent years?

Mr. SANDERSON. The cost to the consumer in the United States at that time was only 9 percent, and it was mainly from sugar and dairy products. And the comparable cost in the European Community was 45 percent. That is, the European consumer paid 45 percent more for his food than he would have to pay on the world market.

The budget cost, net budget support, was 6 percent in the United States and 22 percent in the European Community, but that again was at a time when our budget support costs were running at about $4 billion.

The CHAIRMAN. To what extent has expansion of EC agricultural support payments actually reduced U.S. market shares in Europe and Third World country markets?

Mr. SANDERSON. Well, Europe has become self-sufficient in food, where it was once a major net importer. As a matter of fact, in practically every commodity now, they have become a net exporter of the foods they produce. This definitely has been at the expense of the traditional efficient exporting countries.

The CHAIRMAN. What is the best way that we can get European countries to realize that when we bear the undue share, and the message in the Senate is loud and clear on this particular point—the other night, for military costs in the defense of Europe, when we are spending—let's see, the last expenditure was $14 billion for rapid deployment force in the Persian Gulf—that benefits Japan first, Western Europe second, and way down the line, third, ourselves, with a half a million barrels a day only compared with six times that amount per day into Japan. At what point do we have to just really lay it down, taking away by their subsidies, markets that we have to earn exchange that we desperately need is going to have to be done, or we are going to have to retaliate against them. And as a free trader, I would be the last one to want to start a trade war.

But I tell you, if we get this kind of treatment constantly from them, limitations on corn, gluten, feed, and so forth, I do not want to look awfully carefully at French wines and soft cheese and everything else that is coming in from France, though I am a good friend of France and Franco-American relations. Still, there has to be fairness in this thing. How do we get that message across to them?

Mr. SANDERSON. Senator, as you well know, security and commercial considerations do not easily mix. Maybe they should not. I cannot well imagine our threatening withdrawing our troops from Europe in retaliation for a duty on gluten feed.

I think traditionally we have dealt with these matters in separate compartments, and the world has been better off for that. But I do agree that we should stand our ground when we are the subject of commerical aggression, as we have been on the part of the

Community. We should resort to the remedies provided by the GATT, which are real in my opinion.

As for compensation or retaliation, I am often asked by skeptics what compensation could be asked for that would be of any value to our farmers. I think there is conceivably a form of compensation that we could accept which would be of value to our farmers. For example, we could propose that in return for our willingness to put a cap on our exports of gluten feed, they put a cap on their variable levy on grains. That levy is extremely variable, and it hurts us most when our grain prices are low, because that is when the levy may go up to 100 percent. It is only 50 percent right now on wheat and 35 percent on feed grains.

Suppose we propose a cap at 50 percent and 35 percent. That would be of value to us and it would be a sort of appropriate tit for tat to the proposal for a cap on a particular U.S. export that happens to bother them and happens to disturb their own farm programs.

The CHAIRMAN. Thank you.

The last question I would like to put to you goes back to the old problem of whether or not the United States is a reliable supplier. And I would like to focus on Japan.

Japan certainly is concerned about food security. It has good reason for that concern. In the past, under the Nixon administration, we have embargoed soybeans because of domestic inflation problems here, and they have seen through the years a pattern of our using shipments of food and factory products as a way of implementing our foreign policy. It has failed dismally. It has never implemented our foreign policy.

It is a disastrous policy, and I fought it with every breath I could take, as long as I could. I think we have an understanding certainly with this administration on that. But in that resolve, the problem in a sense with the Soviet Union by a long-term agreement, is there any value in trying to explore with Japan longer term supply agreements, considering that Japan does depend very heavily on U.S. agricultural products, and the United States does devote actually more land to supplying Japan's agricultural needs than Japan does itself.

They have shifted sources of supply a number of times. Would it be possible for us to gain a greater percentage of that market by negotiating with them some long-term assurances and agreements that would guarantee that we would be a reliable supplier and remove any doubt? Or have they by now become convinced that we are a reliable source of supply?

Mr. SANDERSON. I think, in fact, we have been a reliable supplier, and Japan really does not have much cause for concern on that score. But there are certain things that we can do to strengthen our reputation. For one thing, I think we should refrain from foreign policy embargoes. As you say, they have been completely ineffective and they frighten—well, they do not frighten so much the Soviet Union, the target of our embargoes, but countries like Japan that are heavily dependent on imports.

They always say that who knows, we might one day apply an embargo to Japan. I think we should continue to maintain adequate grain reserves. That is crucial to preserving our reputation as a reliable supplier. I think we should try to avoid domestic agricultural policy which put us in the position of restricting production from time to time. That frightens our customers.

As to bilateral agreements, we once had such an agreement with Japan, an informal agreement negotiated by Secretary Butz and then-Secretary of Agriculture of Japan, Mr. Abe, who is now the Foreign Minister. It did provide for target commitments by Japan to import certain quantities. The quantities were very modest and very easily exceeded.

There is some merit in this sort of thing, and perhaps the principal justification for bilateral agreements is that other exporting countries do conclude such agreements and where they do—they do not yet with Japan—but where they do, I think it is probably a good defensive device for us to do the same thing to protect our share.

Mr. JAENKE. I share totally his views, except for the view that we should not ever have—and he did not quite say "ever"—have domestic restrictions. I think that goes a little too far. We cannot foresee all of the conditions that might exist and face some Secretary of Agriculture down the road.

But clearly, bilateral supply agreements make an awful lot of sense to the seller as well as the buyer. It is just good business. You have some assurance and knowledge of your future requirements and can plan accordingly. The Canadians and Australians do have both formal and informal agreements.

The CHAIRMAN. Thank you very much.

Senator PRESSLER. Senator Percy, let me say that Dr. Edelman has participated in a nationwide survey of farmers, on what they think about international trade. The results are very interesting. I believe Illinois is one of the States included.

Mr. EDELMAN. Illinois is one of the States that is conducting a survey, too.

Senator PRESSLER. But Illinois has not completed it yet, has it? Will we get those results in a couple of weeks on what Illinois farmers think on these same 20 questions, or whatever it is?

Mr. EDELMAN. Yes.

The CHAIRMAN. We would be very much interested in that. Thank you very much.

Senator PRESSLER. My final question is this. Can I, as a farm State Senator, cosponsor Senator Heinz's steel legislation, and if so, why? And if not, why not?

Mr. JAENKE. No. It is protectionist.

Senator PRESSLER. But that is the way the steel people look at it, and that is the kind of problem we get into. We get into the same problem with the Wine Equity Act. It is a perfectly logical thing, but then the European countries say they are going to retaliate against soybeans.

Mr. JAENKE. Senator, I am not in detail familiar with the Steel Caucus suggestion, but from what you have described it just seems to me to be moving in the wrong direction—away from a free-trade, open market approach.

I am not sure it is going to be really beneficial to the steel industry. It seems to me to be a short-term band-aid approach. There certainly must be better ways. Just as in the cargo preference issue we are shooting ourselves in the foot on cargo preference when there are other ways in which we could assure a maritime function without disrupting agriculture and other export trade potential.

And that same philosophy—there ought to be a better way, as you described it at least—than to mess up, to foul up the opportunities for trade in an area such as food and agriculture where we have a competitive advantage.

Senator **Pressler**. OK. Maybe each of you would like to submit something in writing on this. Perhaps it is an unfair question. If you feel like submitting something in writing, please do so.

Do you have any other thoughts?

Mr. **Sanderson**. I would be glad to submit something in writing on this question. I generally agree with Mr. Jaenke. As you probably know, we already have negotiated voluntary restraint agreements with many of our principal suppliers, the Europeans and the Japanese, with the Japanese informally. What seems to bother the Steel Caucus are the imports from developing countries, such as Brazil and Korea.

I think if we begin to restrict their exports, that will have a very direct adverse effect on our agricultural exports.

Senator **Pressler**. Thank you all very much.

I shall now call forward the next panel. At this point, we will hear from a representative of the Department of Agriculture and a representative from the U.S. Trade Representative's Office.

Also, Senator Kassebaum had some questions which I shall submit for the record about Blended Credit and some of the other issues.

Our witnesses now are Brian Wadsworth, Assistant Administator for International Trade Policy, Department of Agriculture, and Don Nelson, Assistant U.S. Trade Representative for Agricultural Affairs and Commodity Policy.

STATEMENT OF DONALD M. NELSON, ASSISTANT U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY BRYANT WADSWORTH, ASSISTANT ADMINISTRATOR FOR INTERNATIONAL TRADE POLICY, DEPARTMENT OF AGRICULTURE, AND CHARLES J. O'MARA, DEPUTY FOR INTERNATIONAL TRADE POLICY, DEPARTMENT OF AGRICULTURE

Mr. **Nelson**. Thank you, Mr. Chairman. I am Don Nelson. To my left is Charles J. O'Mara who is Mr. Wadsworth's Deputy for Trade Policy.

It is very good to be here with you this afternoon. An excellent panel preceded us. I have prepared testimony that I would like to submit for the record.

Senator **Pressler**. Good. I hope you can summarize, because I am told there is a vote coming up on the 21 drinking age on the Senate floor. That illustrates how quickly we go from one subject to another.

Mr. **Nelson**. I have an 18-year-old daughter, so let me hurry through my testimony.

Senator **Pressler**. You are for it?

Mr. **Nelson**. I am for it.

The matter that we were asked to address today was largely the question of the corn gluten or the nongrain feed ingredient action proposed by the European Community. We can address that at the outset, or we can talk about some of these other issues if you would like to do so.

Quite frankly, we do not think there is any economic justification for a limitation on the importation of corn gluten, feed, and similar products. The action that the EC has proposed to take, we think is politically motivated and blatantly protectionist.

The European Community has failed to take the action necessary to put its economic house in order. And it is trying to shift the burden of that failure to others. This is not a novel action on their part. They have done something similar to this in the past. They did it with manioc or tapioca a couple of years ago, in which they forced voluntary export restraint agreements on Thailand and on a number of developing countries. They got away with that.

We think if they get away with this on corn gluten, that it will be likely, despite their protest to the contrary, that they will try to take a similar action in the future on soybeans.

Senator **Pressler**. Would you please bring the microphone just a little closer? The acoustics in this room are not the best.

Mr. **Nelson**. Yes, sir.

The mandate on the products that we are discussing here was given to the Commission by the Council as part of an elaborately constructed package that was accepted in toto. The only authority given the Commission was to enter into negotiations with us. Before the concession can actually be withdrawn, the Commission must go back to the Council of Ministers and report the results of the negotiations.

So it is our hope that we would be able to convince the Council through the member states of the Community that taking such a protectionist action will have negative repercussions and consequently will not be in their best interest.

I know that you are aware that over the last few months, we have had visits from the Ministers of Agriculture of France, Germany, Belgium, and Italy, the Director General of Agriculture for the European Community, and we have had visitors from the European farm community who were here on Community-sponsored speaking tours.

Their message has been predictable. That is, that the EC needs import controls on nongrain feed ingredients for political reasons, and the United States should not react in a way that would cause an increase in trade tensions. You will notice that there is a conscious effort on their part to shift the emphasis. They are contending that it would be an action by the United States, not the EC, that would precipitate a deterioration in our trade relations.

They seem to expect us to swallow a line of reasoning that says it is OK for them to take a protectionist action, but that if we respond, it is we, not they, who have precipitated a crisis. And we, quite frankly, categorically reject such a contention.

Under the General Agreement on Tariffs and Trade, the EC has the right to change its import treatment of a product category, and we have never challenged their right to take that action. What we have done is simply point out to them that there will be a cost to them of doing so.

Under the GATT rules, we will be talking of the possibility of compensation, but their import regime is so protectionist that I doubt adequate compensation can be offered. As I noted in the prepared testimony, we negotiated 4 years in the multilateral trade negotiations to gain concessions that are now valued at about $1.2 billion. The EC proposes to restrict some $773 million in trade in nongrain feed ingredients, that's 64 percent or almost two-thirds of the value of all agricultural concessions negotiated during the Toyko round.

This is by way of showing that we have a legitimate trade interest, and it is one that we intend to defend through retaliation, if necessary.

I think at that point, I will stop and the three of us will make ourselves available for any questions that you might have.

Thank you, sir.

[Mr. Nelson's prepared statement follows:]

STATEMENT BY
DONALD M. NELSON
ASSISTANT U.S. TRADE REPRESENTATIVE
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
BEFORE THE
SUBCOMMITTEE ON ARMS CONTROL, OCEANS,
INTERNATIONAL OPERATIONS, AND ENVIRONMENT
SENATE COMMITTEE ON FOREIGN RELATIONS
JUNE 26, 1984

I AM DONALD M. NELSON, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AGRICULTURAL AFFAIRS AND COMMODITY POLICY.

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THE SUBCOMMITTEE THIS AFTERNOON TO DISCUSS THE EUROPEAN COMMUNITY'S PENDING PROPOSAL TO RENEGOTIATE THE TARIFF BINDING ON CORN GLUTEN FEED AND CERTAIN OTHER FEED INGREDIENTS.

AT THIS TIME, THIS IS ONLY A PROPOSAL. HOWEVER, WE ARE SERIOUSLY CONCERNED THAT IT COULD BECOME A REALITY. ACCORDINGLY, WE HAVE NOTIFIED THE COMMUNITY AND ITS MEMBER STATES AT THE HIGHEST LEVEL THAT WE ARE DETERMINED TO VIGOROUSLY DEFEND OUR RIGHTS OF ACCESS TO THAT MARKET. OUR CORN GLUTEN FEED EXPORTS TO THE EC ARE ECONOMICALLY AND SYMBOLICALLY IMPORTANT TO U.S. AGRICULTURE. WE INTEND TO TAKE WHATEVER MEASURES ARE NECESSARY TO PROTECT OUR LEGITIMATE TRADE INTERESTS.

ON APRIL 12, 1984, THE EUROPEAN COMMUNITY (EC) NOTIFIED THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) OF ITS INTENTION TO "PARTIALLY SUSPEND" UNDER ARTICLE XXVIII TARIFF CONCESSIONS PREVIOUSLY GRANTED ON CORN GLUTEN FEED (CGF), DRIED BREWER AND DISTILLERS' GRAINS (DDG), AND CORN GERM MEAL (CGM). TRANSLATED FROM GATT JARGON INTO ENGLISH, THE EC IS SAYING THAT IN LIEU OF THE DUTY-FREE ACCESS WE NOW ENJOY WITHOUT LIMITATION, IT WILL ESTABLISH QUOTAS FOR THESE PRODUCTS. IN PLACE OF THE BOUND ZERO DUTIES CURRENTLY IN PLACE FOR THESE PRODUCTS, THE EC IS PROPOSING TO SET THE FOLLOWING LIMITS: 3 MILLION TONS FOR CGF; 400,000 TONS FOR DDG; 750,000 TONS FOR CGM WITH AN OIL CONTENT OF LESS THAN 3 PERCENT; AND 350,000 TONS FOR CGM WITH AN OIL CONTENT EQUAL TO OR GREATER THAN 3 BUT LESS THAN 8 PERCENT. IMPORTS ENTERING WITHIN THESE QUOTAS WOULD CONTINUE TO RECEIVE DUTY-FREE TREATMENT. ABOVE THE QUOTA, THE EC HAS TOLD US INFORMALLY THAT THEY WOULD APPLY A VARIABLE LEVY BASED ON THE LEVY APPLIED TO CORN IMPORTS. SINCE THERE WOULD BE NO GATT BINDINGS ON THE LEVY OR ANY DUTY THEY MIGHT APPLY ABOVE THE SPECIFIED QUANTITIES, WE WOULD HAVE NO GATT GUARANTEE AGAINST A PROHIBITIVE LEVY ABOVE THE SPECIFIED QUANTITIES.

AVERAGE EC IMPORTS DURING THE 1980-82 PERIOD OF THE PRODUCTS CITED ABOVE TOTALED $776 MILLION, OF WHICH $612 MILLION CAME FROM THE UNITED STATES. EC IMPORTS IN 1983 WERE, HOWEVER, SIGNIFICANTLY HIGHER -- $917 MILLION ($773 MILLION FROM THE U.S.).

EVOLUTION OF ISSUE

CORN GLUTEN FEED, CORN GERM MEAL, AND DRIED DISTILLERS' GRAINS, ARE JUST THREE OF A CONSIDERABLE NUMBER OF NON-GRAIN FEED INGREDIENTS (NGFI) IMPORTED BY THE EC WITH LITTLE OR NO DUTY. OTHER IMPORTANT NGFI IMPORTS INCLUDE MANIOC, SOYBEAN AND OTHER OILSEED MEALS, CITRUS PULP, BEET PULP, AND BRAN. BECAUSE OF THE HIGH PRICE STRUCTURE FOR GRAINS IN THE COMMUNITY, AND TIGHT IMPORT RESTRICTIONS AGAINST CORN AND OTHER FEEDGRAINS, MUCH HIGHER LEVELS OF NGFI PRODUCTS ARE FED THERE THAN IN THE UNITED STATES.

PRESSURE TO RESTRICT NGFI IMPORTS HAS BEEN PRESENT IN SOME DEGREE ALMOST SINCE THE INCEPTION OF THE EC'S COMMON AGRICULTURAL POLICY (CAP). HOWEVER, IT BEGAN TO MOUNT IN THE LATE 1970'S AS RECOGNITION OF THE NEED TO REFORM THE CAP AND, PARTICULARLY, THE POLICY FOR GRAINS, GREW. EC IMPORTS OF CORN GLUTEN FEED, SMALL WHEN THE ZERO DUTY BINDING WAS NEGOTIATED, GREW FROM 690,000 TONS IN 1972 TO ALMOST 3 MILLION TONS IN 1981.

IN APRIL 1982, THE EC COMMISSION DECIDED TO REQUEST A MANDATE FROM THE EC COUNCIL TO NEGOTIATE WITH THE U.S. ON CORN GLUTEN FEED EXPORTS. THE COMMISSION'S PROPOSAL WAS FOR A 3-MILLION-TON TARIFF QUOTA ON CORN GLUTEN FEED, WHICH PRESUMABLY WOULD HAVE MADE IMPORTS OVER 3 MILLION TONS SUBJECT TO THE VARIABLE LEVY SYSTEM. STRONG U.S. PRESSURE PERSUADED THE COMMISSION TO SHELVE THE MANDATE REQUEST AT THAT TIME. THE COMMISSION THEN DECIDED TO REQUEST CONSULTATIONS WITH THE U.S. UNDER ARTICLE XXII OF THE GATT. THESE TALKS WERE HELD IN OCTOBER 1982.

IN AUGUST 1983, THE EC COMMISSION INCLUDED A PROPOSAL TO RESTRICT IMPORTS OF CGF AND CITRUS PELLETS IN A BROAD PACKAGE OF MEASURES AIMED AT REFORMING THE CAP. A FORMAL PROPOSAL SUBMITTED TO THE COUNCIL IN JANUARY 1984 CALLED ONLY FOR A MANDATE TO RENEGOTIATE CONCESSIONS UNDER ARTICLE XXVIII. CITRUS PELLETS WERE DROPPED FROM THIS FORMAL PROPOSAL WHILE CGM AND DDG WERE ADDED. AFTER NUMEROUS COUNCIL DISCUSSIONS OF THIS ISSUE, A MANDATE WAS APPROVED MARCH 31, 1984, WHICH AUTHORIZED THE COMMISSION TO ENTER INTO DISCUSSIONS WITH THE UNITED STATES AIMED AT RENEGOTIATING THE GATT BINDING ON THESE PRODUCTS. THIS MANDATE WAS PART OF A PACKAGE WHICH INCLUDES 1984/85 FARM PRICES AND ASSORTED OTHER "CAP REFORM" MEASURES. I SHOULD NOTE THAT THE MANDATE ONLY AUTHORIZES NEGOTIATIONS. IT DOES NOT ALLOW THE COMMISSION TO WITHDRAW THE CONCESSIONS.

CONCESSIONS CAN TAKE PLACE UNTIL THE COUNCIL HAS EXAMINED THE RESULTS OF THE NEGOTIATIONS. WE WILL MAKE EVERY EFFORT TO PERSUADE THE EUROPEANS THAT IT WOULD NOT BE IN THEIR BEST INTEREST TO PLACE ANY TYPE OF RESTRICTION ON CORN GUTEN AND THAT THIS MEASURE IS HARDLY WORTH THE COST.

ARTICLE XXVIII REQUIREMENTS

ARTICLE XXVIII OF THE GATT DOES PERMIT WITHDRAWAL OR MODIFICATION OF TRADE CONCESSIONS BUT AT AN EQUIVALENT COST. WE HAVE ACKNOWLEDGED THE EC'S RIGHT TO TAKE SUCH ACTION. UNDER ARTICLE XXVIII, A CONTRACTING PARTY (A SIGNATORY TO THE GATT) HAS A RIGHT TO WITHDRAW ANY BOUND TARIFF CONCESSION, SUBJECT TO THE RIGHT OF AFFECTED PARTIES TO COMPENSATION OR RETALIATION FOR THE WITHDRAWAL. COMPENSATION WOULD BE IN THIS CASE NEW EC CONCESSIONS BENEFITTING OTHER U.S. EXPORTS. RETALIATION WOULD BE NEW U.S. RESTRICTIONS ON IMPORTS OF INTEREST TO THE EC. ALL ACTIONS UNDER ARTICLE XXVIII, INCLUDING ANY RETALIATION, MUST BE DONE ON MOST-FAVORED-NATION (MFN) BASIS. THIS MEANS THAT TARIFF ACTION TAKEN BY THE EC AND ANY RETALIATORY ACTION TAKEN BY THE UNITED STATES WOULD APPLY TO IMPORTS FROM ALL GATT-MEMBER COUNTRIES, OR COUNTRIES OTHERWISE GIVEN MFN STATUS.

A PARTY WISHING TO WITHDRAW A CONCESSION MUST FIRST NOTIFY THE GATT OF THE INTENDED ACTION, AND MUST ALLOW 90 DAYS FOR

AFFECTED PARTIES TO NOTIFY THEIR INTEREST IN THE CONCESSION. IN THIS CASE, THE EC'S FORMAL NOTIFICATION WAS DATED APRIL 12. WE HAVE ALREADY RESPONDED BY FORMALLY NOTIFYING OUR RIGHTS AS THE PARTY WHO NEGOTIATED THE CONCESSION AND THE "PRINCIPAL SUPPLIER" TO THE EC OF THE PRODUCTS WHICH WOULD BE AFFECTED. THE EC IS OBLIGATED UNDER ARTICLE XXVIII TO TRY TO NEGOTIATE COMPENSATION SATISFACTORY TO THE UNITED STATES BEFORE IMPLEMENTING ITS PROPOSAL.

HOWEVER, IF THERE IS NO AGREEMENT AFTER NEGOTIATION, THE EC CAN UNILATERALLY WITHDRAW THE CONCESSIONS ANYWAY. THE UNITED STATES IN TURN THEN HAS A RIGHT, WITHIN 6 MONTHS OF THE EC UNILATERAL WITHDRAWAL, TO RETALIATE BY WITHDRAWING "SUBSTANTIALLY EQUIVALENT" CONCESSIONS. IN THIS CASE, WE FRANKLY SEE LITTLE POSSIBILITY THAT THE EC WILL BE ABLE TO OFFER ADEQUATE COMPENSATION FOR AN ACTION INVOLVING TRADE OF SUCH VALUE AND SENSITIVITY. IF THE EC INSISTS ON IMPLEMENTING THIS PROPOSAL ANYWAY, WE HAVE WARNED THEM THAT WE WOULD NOT HESITATE TO EXERICSE OUR RIGHT TO RETALIATE BY U.S. ACTIONS OF COMPARABLE EFFECT AND SENSITIVITY.

U.S. LEGAL AUTHORITY

WE BELIEVE EXISTING LAWS PROVIDE SUFFICIENT DOMESTIC AUTHORITY TO RETALIATE, IF THE EC IMPLEMENTS ITS PROPOSAL. THE PRESIDENT'S AUTHORITY TO RETALIATE IS EMBODIED IN SECTIONS 125 AND 301 OF THE TRADE ACT OF 1974. UNDER PROVISIONS OF SECTION 125, WHENEVER A FOREIGN COUNTRY WITHDRAWS OR MODIFIES THE APPLICATION OF TRADE AGREEMENT OBLIGATIONS OF BENEFIT TO THE UNITED STATES WITHOUT OFFERING ADEQUATE COMPENSATION, THE PRESIDENT MAY: 1) WITHDRAW SUBSTANTIALLY EQUIVALENT TRADE AGREEMENT BENEFITS; AND 2) PROCLAIM RESTRICTIONS TO EFFECT THAT WITHDRAWAL. THIS AUTHORITY IS TO BE EXERCISED IN PURSUANCE OF RIGHTS GRANTED TO THE UNITED STATES IN TRADE AGREEMENTS AND TO THE EXTENT NECESSARY TO PROTECT U.S. ECONOMIC INTEREST. INCREASES IN TARIFFS UNDER SECTION 125 ARE, HOWEVER, LIMITED TO A 50 PERCENT INCREASE IN THE EXISTING RATE OF DUTY OR A 20 PERCENTAGE POINT INCREASE IN THE AD VALOREM DUTY (WHICHEVER IS HIGHER). SECTION 301 GIVES THE PRESIDENT BROADER AUTHORITY IN IMPOSING DUTIES OR OTHER IMPORT RESTRICTIONS, SHOULD STRONGER ACTION BE NECESSARY.

SUMMARY OF INITIAL MEETING WITH EC

ON JUNE 12, WE MET WITH THE EC IN THE FIRST OF WHAT WILL PROBABLY BE SEVERAL SESSIONS TO DISCUSS ITS PROPOSAL TO RENEGOTIATE THE GATT BINDING ON CORN GLUTEN FEED. THE COMMUNITY RESTATED ITS POSITION THAT THIS IS A MODEST AND NECESSARY MOVE WHICH WILL HAVE LITTLE IMPACT ON OUR TRADE INTERESTS. AND, IN ACCORDANCE

WITH ITS OBLIGATIONS UNDER THE GATT, THE COMMUNITY INDICATED ITS INTENTION IN DUE COURSE TO OFFER COMPENSATION FOR ANY TRADE DAMAGE, BUT NO SPECIFIC ITEMS WERE MENTIONED.

WE URGED THE COMMUNITY DURING THE JUNE 12 MEETING TO RECONSIDER ITS PROPOSAL AND TO ABANDON IT. WE OBJECT TO MEASURES WHICH ATTEMPT TO TAKE THE BURDEN OF CAP REFORM FROM INTERNAL EC ADJUSTMENTS AND PLACE THAT BURDEN ON OUR TRADE. FURTHERMORE, WE TOLD THE EC THAT WE DO NOT BELIEVE THEY WILL REALLY HELP THEMSELVES, THOUGH THEY WOULD HURT US BY THIS ACTION. WE ALSO REITERATED OUR BELIEF THAT THE EC WILL BE UNABLE TO OFFER US COMPENSATION SATISFACTORY TO US, AND THAT OUR ONLY RECOURSE WILL BE TO RETALIATE.

IT WAS AGREED THAT A SECOND MEETING PURSUANT TO GATT ARTICLE XXVIII WOULD PROBABLY BE HELD IN MID-SEPTEMBER. THE EC REPRESENTATIVE AT THE JUNE 12 MEETING SUGGESTED THAT A THIRD, AND PROBABLY FOURTH OR FIFTH, MEETING MIGHT BE NECESSARY TO CONCLUDE NEGOTIATIONS.

U.S. POSITION

WHILE I HAVE DESCRIBED THE SITUATION IN TERMS OF THE GATT RIGHTS AND OBLIGATION, THIS CASE TRANSCENDS THE LEGAL ISSUES IN IMPORTANT RESPECTS. EC IMPLEMENTATION OF THIS PROPOSAL

WOULD REPRESENT A MAJOR STEP BACKWARD FOR THE GATT BECAUSE OF THE CONSIDERABLE TRADE VALUE INVOLVED. AND, THE PRODUCTS AFFECTED REPRESENT THE ONLY MAJOR AGRICULTURAL PRODUCTS, OTHER THAN SOYBEANS, NOT CURRENTLY CONTROLLED IN SOME FASHION UNDER THE EC'S IMPORT REGIME.

EC IMPORTS FROM THE U.S. OF THE NON-GRAIN FEEDS COVERED BY THE EC PROPOSAL WERE VALUED AT $773 MILLION IN 1983. TO PUT THIS NUMBER IN PERSPECTIVE, THE U.S. SPENT 4 YEARS NEGOTIATING NEW AGRICULTURAL CONCESSIONS FROM THE EC DURING THE TOKYO ROUND. TRADE IN THE ITEMS ON WHICH CONCESSIONS WERE GRANTED WAS VALUED AT $865 MILLION AT THAT TIME. TRADE IN THESE SAME ITEMS IS CURRENTLY VALUED AT ABOUT $1,173 MILLION. THE EC PROPOSED WITHDRAWAL OF CONCESSIONS WOULD TAKE BACK A SIGNIFICANT PORTION OF THE AGRICULTURAL GAINS MADE IN THE TOKYO ROUND.

DESPITE THREE MAJOR ROUNDS OF TRADE NEGOTIATIONS SINCE ITS FORMATION, THE EC HAS MOVED RELENTLESSLY TOWARD A DOMESTIC MARKET THAT IS COMPLETELY INSULATED FROM OUTSIDE COMPETITION.

IF THE COMMUNITY IS SUCCESSFUL IN CAPPING CORN GLUTEN AND OTHER NON-GRAIN FEED INGREDIENTS IMPORTS, ONLY SOYBEANS AND PRODUCTS WILL REMAIN UNRESTRICTED. AND, SOYBEANS AND PRODUCTS HAVE BEEN THE OBJECT OF PROTECTIONIST PRESSURES WITHIN THE EC FOR MANY YEARS.

MR. CHAIRMAN, THAT CONCLUDES MY REMARKS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS THE COMMITTEE MIGHT HAVE.

Senator PRESSLER. Thank you.

Mr. Wadsworth.

Mr. WADSWORTH. I have no prepared testimony, Senator, but am available for questioning.

Senator PRESSLER. Very well. Thank you.

What is the current status of the corn gluten talks with the EEC, and what is going to happen next? What action will the United States be taking?

Mr. NELSON. There were consultations held in Geneva on June 12 in which the European Community basically presented their rationale for taking the action, a very flimsy economic rationale so far as we are concerned.

All their economic arguments were refuted. They did not offer compensation. We have agreed that we will attempt to schedule a meeting in the mid-part of September, and it is quite likely that there will be additional meetings thereafter. At this point, as I indicated, the Community will not be taking any action until such time as we have completed negotiations and the results of those negotiations have been taken back to the Council of Ministers for their review.

Senator PRESSLER. The EEC, as I understand, has agreed to annually import 10,000 metric tons of high-quality beef from the United States. Yet, they have never even come close to that amount. Why haven't they purchased more U.S. beef, and what can we do to get them to meet this agreement?

Mr. NELSON. There were several reasons for that, Mr. Chairman. Initially, there were some barriers erected by the Community which I think have largely been overcome. There were problems with the manner in which the import licenses were being issued. We think that is being taken care of. There is a certain automaticity in the process now that did not exist earlier.

Several countries had provisions that established a minimum weight, that no cut imported could be less than 3 kilograms. That has been eliminated in all cases except, I think, for Belgium and The Netherlands, and those restrictions are due to be eliminated on January 1, 1985.

I think basically the problem we have had has been the strength of the dollar. It is extremely expensive to import U.S. meat. There is a 25-percent import duty in addition. And in many cases, our cuts of meat are not the ones they are accustomed to in Europe, and because the market is smaller, it is a catch-22. Many of our processors are not willing to change production processes to meet such a small demand.

We think the potential is there, and when we get our dollar right, we think we will have a potential for increasing those exports.

Senator **Pressler**. Does USDA have the authority needed to initiate an aggressive barter program with agricultural products? If not, what additional authority do you need?

Mr. **Wadsworth**. I think we do have authority to do so. I do not know that the administration is inclined to get too involved in it. To do barter, of course, we would have to have products to barter with. We do have some commodities in CCC storage. We have effected some small exchanges, barter exchanges with Jamaica, for example, but we would not be getting involved in ongoing, continuing barter operations in competition with private companies, I do not think.

Private companies, I understand, are doing barter deals around the world from time to time.

Senator **Pressler**. I think that one reason why a lot of great economists of the world, like John Kenneth Galbraith, become great is because they start out as agricultural economists. These issues are so complicated, everything else is simple after that.

In the past, have we lost export sales because of a shortage in export credit guarantees compared to some of our competitors? Do they really have a better Blended Credit Program than we do?

Mr. **Wadsworth**. The Blended Credit Program, of course, is the Department of Agriculture USDA program. I do not think other countries are calling theirs Blended Credit. They do have subsidized credit, and that is Blended Credit.

My general impression—and I am not an expert on the credit side—is that we have had adequate credit available, and in some cases have not been able to push it off onto the countries as rapidly as we would like to. The serious problem is that even with the Blended Credit, our prices end up uncompetitive in many cases because of the strength of the dollar and our high support levels or relatively high support levels.

Senator **Pressler**. The Agricultural Export Credit Revolving Fund was established several years ago, but it has not been used. Why not?

Mr. **Wadsworth**. My understanding on that, Mr. Chairman, is it has never really been funded.

Senator **Pressler**. And it is Congress' duty to fund it, so that is the reason why it has never been used?

Mr. **Wadsworth**. That is my understanding.

Senator **Pressler**. Many foreign nations place almost impossible standards on imported meat products to limit U.S. meat exports at the same time the U.S. imports large quantities of meat from abroad.

How can we persuade these nations to open their markets to our products, or should we restrict the access of foreign nations to the U.S. market?

Mr. **Wadsworth**. Well, it is true that we are the world's largest importer of beef, and we have been for many years. We were the first country to impose on foreign countries the necessity to adhere to sanitation and health regulations that we ourselves generated. This worked fine for several years, but now the chickens are sort of coming home to roost. And we find other countries now deciding that they are cleaner than we are, or pretending to be so, and turning the tables on us.

The one I think that you are most familiar with perhaps is the European Community. They are trying to implement a third country meat directive which we have been involved with them on. I think that we are, through bilateral consultations, making progress in working out the kinks and the difficulties of that directive before it is finally completely implemented.

It is, however, I think one of the problems that makes it difficult for us to fill the 10,000-ton quota in the European Community.

Senator **Pressler**. What are the dynamics of the Public Law 480 program, both domestically and abroad? Is there a belief that the Public Law 480 program makes food more expensive here at home? Would you agree with an earlier witness that our Public Law 480 program should be expanded, and how much support do you believe could be found in Congress for expanding this program this year and next?

Mr. **Wadsworth**. That is an awfully big question to ask. I think we believe in the Public Law 480 program very much. We believe that it has proven itself over the last several years to be an effective market development program. Many of the countries that used to be Public Law 480 countries are now cash buyers, and we believe that that can continue into the future.

We are pleased with the recent—I think there was a bill passed just recently that would fund Public Law 480 for $60 million or so. It is not the sole answer for agricultural exports, but we would like to see it healthy and funded well. We do not want to use Public Law 480 in competition with private traders who would otherwise make commercial sales. We do not think that that is a judicious use of Government funds.

I cannot give you a number, however, on how much we think it ought to have. Maybe there are some in the Department who could, but I am not adequately informed to do so.

Senator **Pressler**. I have a number of other questions from Senator Kassebaum and other Senators to submit in writing to you. Unfortunately, time will force me to conclude, but first I would ask Mr. Nelson about our problems with Europe. The Export Subsidy Program and other EEC agricultural policies on corn gluten and so forth, how do we get at this problem? What is the Trade Office going to do?

Mr. **Nelson**. This, obviously, is a serious problem, one that we have been wrestling with for a number of years now. As was mentioned by a member of the panel, we have sought to use the rules and the subsidies code within the GATT as a manner of addressing the legality of what the Community is doing in the area of export subsidies.

Senator **Pressler**. Would you argue that agriculture is not under GATT entirely?

Mr. **Nelson**. Not precisely. What happens essentially is that for export subsidies, there is an absolute prohibition on the use of export subsidies for industrial products. But there is a list of exceptions.

Senator Pressler. OK. If you were a European arguing against my position, what would you say in a nutshell? How would they defend this?

Mr. Nelson. Well, sir, I think their argument is so spurious that I would not want to give them credence by mouthing them here before you and insult your intelligence. The fact of the matter is that the rules of the GATT are quite weak with respect to agricultural export subsidies.

Senator Pressler. Why is that? Don't they list the products in that list?

Mr. Nelson. That is for industrial products. In agriculture, it starts by saying something to the effect that a country should refrain—for primary products, which includes agriculture—that countries should refrain from the use of export subsidies, but then it goes on to set forth a series of exceptions to that.

Basically, what it means for agriculture, in the export subsidy area, that the rules are quite weak. It says something to the effect that you should not take more than what is an equitable share, that you should not materially undercut the prices of others. It is very difficult to quantify what is an equitable share of the market.

We, quite frankly, think that any share of the world market taken with the use of export subsidies is inequitable. Understandably, the Community feels differently. If we were the ones doing the subsidization and they were the ones paying their farmers not to produce, I think they might be coming to you and talking about the North Atlantic Alliance and so on, and complaining very much about our practices. But when we go to them, they say it is their right to do this.

How do we address it? Well, we have tried bilaterally. We have tried the sale of wheat flour to Egypt, which incidentally was an export PIK. We have not engaged in any subsidies of that kind in a little over a year. I would not be surprised if we would do it again if we found a good point at which to do so.

I think one of the points that we need to make plain to the Community is that we are willing to abide by rules, if they are. If they are not, then we are willing to engage in the same kinds of practices as they. We have to make it expensive to them. That is one facet of it, the bilateral approach, and to make it hurt.

The other is through the Committee on Trade in Agriculture of the GATT. In recognition of the inadequacies of the rules on agricultural trade, at the ministerial meeting in Geneva of November 1982, it was agreed to establish this committee which would review the domestic policies and the trade practices of all the countries who are members, and to see whether or not there would be the basis for trade negotiation which would address a number of these problems.

That report is due in November, and we would like to enter into a set of negotiations which would try to cope with some of the difficulties we have in that area.

Senator Pressler. I would also ask the Trade Representatives or the Department of Agriculture this question. Farmers in the upper Midwest, at least hog farmers, have been very concerned about the increased importation of Canadian hogs. In recent years, the number of live hogs imported from Canada has increased dramatically.

A recent USDA study found that these Canadian hogs are more competitive, due to various Canadian farm policies. Apparently, they are somehow subsidizing exports of live hogs. Is that an unfair trade practice? Is that violating any of our agreements?

Mr. NELSON. The Canadian dollar, I think, is a large part of the problem there. It is much lower than ours. It is much more profitable for the Canadians to sell the hogs in the United States. We have discussed this with people from the Farm Bureau and we understand the problem they are having.

The proper remedy would be to ask the International Trade Commission and the Department of Commerce to investigate whether or not subsidies exist and whether or not the subsidies are causing injury to the domestic industry. That is a process that takes some time.

In the meantime, 2 weeks ago in Ottawa, Ambassador Brock raised with Canadian Trade Minister Regan this issue, the concerns that we have, and we have agreed to get together in the very near future to discuss a way of addressing the concerns that the people in the upper Midwest have about those increased imports.

Senator PRESSLER. So what is going to happen? I guess we really do not have any legal basis. We would have to have a bilateral agreement.

Mr. NELSON. Well, sir, you made an excellent point earlier, and that is the fact that we have a favorable trade balance with Canada. And actions that are taken arbitrarily on our part could result in a reaction on the part of the Canadians that would be detrimental to our overall trade.

I think in this particular instance, a part of the problem is that the various provinces have incentives to pork production which are going to be taken over, I understand, by a central Canadian Government policy. It appears to us that many of these producers are trying to build a statistical base upon which to enter the Federal program. So this may be a short-lived phenomenon in that once the Federal program is in effect, trade may drop back to a somewhat reasonable level.

Senator PRESSLER. For years, the honey producers in the United States have been concerned about the rapid increase in honey imports. A large portion of honey imports are coming from Mainland China.

In your view, do the Chinese use any government programs to make their honey more competitive on the world market? Has this policy helped Chinese honey displace domestically produced honey? What action is being taken to reduce the amount of honey being imported and the cost of the honey loan program?

Mr. NELSON. My cohorts looked at me to answer this. We are not aware that the Chinese have any subsidy type program or any program to encourage it, but quite frankly it is very difficult to get a handle on the policies that they would follow in domestic agricultural production. There is no question that imports do displace honey that is produced in the United States. I think the CCC has taken some in stock; but if I recall, the Secretary of Agriculture has asked for the authority to adjust the loan rate or the guarantee price for honey in order to adjust it to reflect the supply and demand here, to make us more competitive vis-a-vis imports.

I think that that may be the solution to reducing imports and making ourselves more competitive.

Senator PRESSLER. This is a very difficult issue, the bee-keeping issue, because we do have a honey loan program, and it gets into a very complicated area.

Mr. NELSON. That is true. It is necessary for the pollenation of a number of crops. It is a very difficult problem.

Senator PRESSLER. I want to thank our witnesses. This hearing this afternoon has been very enlightening for me, and I think for the other members of this committee.

We had four or five or Senators stopping in, which showed the interest. But we are in the last week before a recess, and we have all kinds of burning issues raging around here, so people had to come and go. But we do have a lot of questions for the record.

I think that this hearing illustrates my old thesis that if you go back, many of the great economists of this world have started as agricultural economists. I am not an economist. I am part economist. I know enough economics to be dangerous. But the issues of agricultural trade are so complicated that they almost frustrate comprehension. But we must to continue to try.

We must work with farm groups to get them involved. The downside to everything is so great, not only agricultural trade, but also the relationships to other producer groups. I cosponsored the Wine Equity Act this year, and suddenly found that the soybean producers were being threatened with retaliation. Somehow, our groups have to work together, as the Japanese do, as the EEC people do, and we are going to have to have new, tougher trade laws and a new and tougher approach at negotiations.

Just talking to the Europeans is not going to do it. If we start having retaliation from them, then we must be prepared to retaliate back against other products. That is where the Steel Caucus dilemma comes in. Forty-seven Senators are members of the Steel Caucus.

Mr. NELSON. Well, you are aware of our concern about that legislation.

Senator PRESSLER. What is your concern? Let's hear it. Are you opposed to Senator Heinz' bill?

Mr. NELSON. Yes, sir; we are.

Senator PRESSLER. Why are you opposed to it?

Mr. NELSON. I think the reasons were detailed in a letter to you from Ambassador Brock, but from my own very parochial point of view, I think some of the same concerns that you and others had about the Wine Equity Act, you and others had about the possibility of retaliation, are certainly very evident here. I think Mr. Sanderson—I believe it was Mr. Sanderson—expressed doubts about restricting imports from countries who promised to be very good customers of ours in the future, especially for agricultural products, some of the ones that he named.

We have grave concerns about it.

Mr. WADSWORTH. I think the Department of Agriculture can echo those concerns as well. We cannot expect countries like

Korea, who are becoming major markets for U.S. agricultural commodities, but also a major steel producer, to keep buying from us if we cannot continue to buy from them.

Senator **Pressler**. We also may have some questions from the minority. I shall leave the record open. I thank all of the witnesses very much. This concludes the hearing. Thank you.

[Additional questions and answers follow:]

AGRICULTURE DEPARTMENT'S RESPONSE TO AN ADDITIONAL QUESTION SUBMITTED BY SENATOR PRESSLER

Question. In your response to my question on honey, you said the Department had proposed making the honey loan program discretionary. If this were to be done, how low would the loan level have to be set to clear the market, and what impact would that have on domestic beekeepers and all of agriculture due to reduced pollination?

Answer. Honey is a designated non-basic commodity under the Agricultural Adjustment Act of 1979 and must be supported at 60 to 90 percent parity. If the Secretary of Agriculture were given discretionary authority to set the honey support level, then the support level could be varied according to numerous honey market considerations. These would include the market prices for honey, the cost of producing honey, the amount of honey in CCC stocks, the impact a given support level would have on our beekeepers and on U.S. agriculture due to reduced pollination, and any other factors the Secretary of Agriculture considered to be important in determining the honey support level.

The exact position of some of these factors is presently not known. Should, however, discretionary authority be extended in this instance we would then be able to ascertain the magnitude of the unknown factors.

AGRICULTURE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR PERCY

Question 1. Mr. Sanderson has pointed out that EC agricultural export subsidies clearly violate the GATT rule that such subsidies could not expand market share. What position is the United States now taking in current talks with the EC on their export subsidies? What leverage do we have or will be needed to get EC concurrence?

How do you react to Mr. Sanderson's proposal that we press the Europeans to agree to restrain their export subsidies to levels consistent with the equitable share concept?

Do you agree that the Tokyo Round Subsidy Code provides a basis for that approach?

Answer. We believe the Subsidy Code rules need to be improved. Under present rules we have been able to demonstrate in GATT that the EC has used agricultural export subsidies to expand its share of world markets. But we have been able to get clear cut decisions from the GATT that such an expanded share is "more than an equitable share," which is the current GATT standard. We believe it would be better to have a rule which does not depend upon demonstrating equity or demonstrating the unfair effect of a subsidy.

Our position for more than 2 years now has been to obtain a rule which would prohibit the use of agricultural export subsidies.

We have made substantial progress toward this objective both in discussions with the European Community and with other countries in the GATT. The GATT Committee on Trade in Agriculture, established in November 1982 partly for the purpose of examining GATT rules on exports subsidies, has agreed with us that the rules don't work. The chairman is now proposing that the Committee recommend elaboration of an improved rules based on the concept that export subsidies should be prohibited with carefully specified exceptions.

We believe we have the support of the European Community to consider such an approach, although much remains to be worked out including, of course, the nature of any exceptions. Our basic leverage in these talks is the understanding of the rest of the world that export subsidies are in fact a major threat to all trading nations.

We do not want to overstate our accomplishments. We do, however, believe that we have achieved an understanding among major countries that a greater discipline over agricultural export subsidies must be established. We think most countries share our view that there will have to be changes in the rules if we are to achieve this objective. We hope to bring this question to a formal decision by the time of the meeting of the GATT Contracting Parties in November of this year.

Question 2. How do you assess the prospects of dissuading the EC from taking action to limit gluten feed imports?

Answer. We believe that we still have a reasonable chance of dissuading the EC from restricting corn gluten feed imports. Since the issue was raised as a part of the EC CAP reform exercise nearly a year ago, the Administration has taken every opportunity to emphasize to EC Commission and Member State officials the seriousness of this issue to the U.S. Government and the American farmer. Members of Congress have also made their feelings known on several occasions. Although the EC Council of Ministers did eventually accept a proposal to negotiate new restrictions under the General Agreement on Tariffs and Trade (GATT), they did not give the Commission the authority to actually implement the restrictions. Upon conclusion of the GATT negotiations, if a conclusion is ever reached, the Council must decide again whether or not to go forward with the restrictions. Since there is little possibility of a successful conclusion to the negotiations (i.e., an agreement between the United States and the EC on compensation), the Ministers will be faced with acting under threat of U.S. retaliation. We hope that under those circumstances reason will prevail and the EC will decide not to act.

Question 3. Would you agree with Mr. Sanderson that, if we are unsuccessful in preventing the EC from action to impose some duty on this import, we serve U.S. interests better by trying to reach agreement on compensation, if we can, rather than to resort to retaliation?

Answer. Naturally, a successful negotiation on compensation is always preferable to retaliation in trade disputes. However, in this case we are very skeptical of the EC's ability to offer us adequate compensation, given the large amount of trade involved and the near impossibility of helping the interest hurt by such a move. The total value of the trade in the products covered by the EC proposal was $773 million in 1983. The total value of trade in agricultural items for which the EC granted concessions during 4 years of negotiations in the Tokyo Round of trade talks was only $865 milion at the time and $1,173 million today. The EC's proposed withdrawal of concessions would therefore effectively negate a major portion of their agricultural concessions made in the Tokyo Round. Furthermore, it is important at this point for the United States to resist the progressive encroachment of CAP import restrictions on U.S. farm exports. Non-grain feed ingredients represent one of the few remaining significant agricultural commodities for which the EC has not imposed serious import restrictions. If the U.S. acquiesces to this action, our $4 billion oilseeds market could be next.

Question 4. What promotion techniques that USDA uses have you found to be most effective over the years? Do you foresee the need to shift emphasis among your programs at this time to take into account changing international market conditions?

Answer. There is no single "most effective" promotion technique for U.S. agricultural exports. Promotion techniques vary by commodity, market and over time, depending on the individual cooperator's past experience in the market. The success of FAS' market development program is in fact attributable to its ability to adapt to the constantly changing export situations faced by each commodity and to target activities to market opportunities that offer the greatest growth potential. Each year in January, FAS and each cooperator jointly evaluate the effectiveness of that cooperator's program worldwide on a commodity by market basis. The outcome of that evaluation determines the direction of the next year's marketing plan. This annual evaluation process, which also includes the identification of new market opportunities, ensures that program resources are channeled to those markets offering the greatest potential return in terms of increased U.S. changing market opportunities.

Question 5. How is USDA adjusting its export promotion effort in light of these prospective changes in comparative market opportunities?

Answer. As a consequence of the strategic planning process discussed above, market development funds have been shifted from Western Europe and Japan to developing markets in Southeast Asia, Africa and the Middle East, and FAS has also encouraged a greater emphasis on promotion of value-added and high-value commodities as the attached tables indicate.

MARKET DEVELOPMENT BUDGETS BY REGION

Region	Fiscal year 1984 total budget		Fiscal year 1985 expansion budgets		Fiscal year 1985 Total budget		Fiscal year 1986 expansion budgets		Fiscal year 1986 Total budget	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Japan	$4,705	14.0	$323	8.2	$5,028	13.4	$261	9.6	$5,289	13.1
Western Europe	8,605	25.6	527	13.3	9,132	24.3	477	17.6	9,609	23.9
Southeast Asia	8,879	26.4	1,051	26.6	9,930	26.5	612	22.6	10,542	26.2
Eastern Europe and U.S.S.R	947	2.8	126	3.2	1,073	2.9	43	1.6	1,116	2.8
Latin America	3,380	10.1	536	13.6	3,916	10.4	223	8.2	4,139	10.3
Africa	2,850	8.4	509	12.9	3,359	8.9	621	22.9	3,980	9.9
Near East	1,793	5.3	560	14.2	2,353	6.3	274	10.1	2,627	6.5
Other	305	1.0	6	.1	311	.8	0	0	311	.8
EIPS	2,120	6.3	312	7.9	2,432	6.5	198	7.3	2,630	6.5
Total	33,584	100.0	3,950	100.0	37,534	100.0	2,709	100.0	40,243	100.0

MARKET DEVELOPMENT BUDGETS BY TYPE OF ECONOMY

	Fiscal year 1984 total budget percent	Fiscal year 1985 total budget percent	Fiscal year 1986 expansion budget percent
Centrally planned economies (includes P.R.C.)	11.5	11.4	9.8
Developing countries	41.3	49.3	63.4
Developed countries	47.2	39.3	26.8
Total	100.0	100.0	100.0
Value-added:			
Initial commodities	47.0	50.0	38.0
Value-added/high-value commodities	53.0	50.0	62.0
Total	100.0	100.0	100.0

Question 6. What has been the effect of the high dollar on U.S. agricultural export values in the past 2 years? In percentage terms, how much of the decline in agricultural export would you attribute to:

The rise in the international value of the dollar?

Reduced imports forced by the debt crisis in a number of developing countries? The recession or other factors?

Answer. The U.S. agricultural export value for fiscal year 1982 was $39.1 billion, 11 percent below the 1981 level. In 1983 exports values again declined by 11 percent to $34.8 billion. A number of factors have accounted for this decrease, including worldwide economic stagnation, severe financial problems that have limited imports in many countries, a higher valued U.S. dollar, increased production abroad in importing and exporting countries, as well as U.S. farm policies which have inhibited our price competitiveness in the world market.

Analysis directed at isolating the magnitude of the individual effects of these variables is very limited. A recent study published by the Economic Research Service identified 8 major factors affecting trade and attempted to quantify the impact these factors have had no trade in wheat, coarse grains, and soybean and meal markets for the 1980/81-1982/83 period.[1] The eight factors considered by the study were income and population growth, foreign crop production, U.S.S.R. feeding/purchasing decisions, EC policy, foreign indebtedness, exchange rates and declining freight rates. The study arrived at the following general conclusions:

No single factor was cominant across the commodities studied.

Negative impact of the strengthening dollar was most pronounced of the factors for coarse grains and soybeans/meal. Export volumes were 22.8 million tons and 3.3

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[1] "Sources of Recent Changes in U.S. Agricultural Exports," John Dunmore and James Longmire, IED-ERS, January 1984.

million tons lower for coarse grains and soybeans/meal respectively for the period as a result of an approximate 30 percent real appreciation of the trade weighted U.S. dollar.

Exchange rate impact for wheat (−3.8 million tons) ranked second in explaining the change in exports.

Foreign economic activity, measured by GNP per capita, had a small positive impact on trade. If worldwide economic activity had continued over the 1980/81-1982/83 period at the rate of the 1970's, U.S. wheat exports would have increased by 2.8 million tons, corn by 7 million tons and soybeans by 0.6 million tons.

Caution should be taken in using these numbers due to the interplay of the different variables, their combined effect on trade and the complexity involved in isolating the effects of individual factors on the level of U.S. agricultural exports.

PRIORITY AGRICULTURAL REQUESTS FROM ISRAEL

Following is a list of USDA's priority tariff requests from Israel under the proposed FTA:

Tariff request:—I. Maintain at zero

Products covered: All current duty-free items, in particular: (a) corn (10.05); (b) sorghum (ex. 10.07); and (c) soybeans (ex.12.01).

II. Reduce to zero immediately or within a 5-year staging period.

All Dutiable Products in BTN Chapters

Meat products	2
Dairy and poultry products	4
Fruit nuts and preparations	8
Grains, excluding wheat [1]	10
Grain preparations, particularly cereal flours	11
Oilseeds and products	12
Meat preparations	16
Fruit and vegetable preparations	0
Soft drink, wines, and spirits	22
Tobacco and tobacco products, particularly cigarettes and manufactured and unmanufactured tobacco	24

[1] Wheat (10.01) is bound at zero under the GATT.

Question 7. Mr. Sanderson suggested that even with lower grain support levels in Europe, expansion prospects there will be limited by productivity gains and leveling off of per capita grain and livestock absorption. Do USDA forecasts reach similar conclusions?

Answer. One recent indication of future EC grain production and export levels was given in a graphic presentation in a published report, a copy of which is attached. This graphic presentation suggests that the growth of export volume for grains from the EC may accelerate in the years ahead, rather than slow down. Recent visits with European specialists seem to indicate that there remains substantial room for further rapid increases in grain yields per hectare, and it is fairly clear that domestic usage of grain to meet the needs of internal consumption within the EC will continue to be discouraged by the high-level of internal EC prices.

Question 8. By contrast he suggests much more favorable prospects for expanding exports of grain and oilseed exports to Japan because of the low level of livestock product consumption there. Does the USDA assessment support that conclusion?

Answer. It is quite likely that U.S. exports of grain to Japan will increase more during the years ahead than U.S. exports of grain to the EC.

Question 9. How is USDA adjusting its export promotion effort in light of these prospective changes in comparative market opportunities?

Answer. To respond to the limited export expansion possibilities in Europe, a major shift in emphasis in export promotion expenditures and activities has already taken place. For wheat and feed grains, for example, the portion of foreign market development expenditure aimed at Western Europe is now only 15 percent, whereas, 5 years ago it accounted for approximately 40 percent. Most of the diverted funds have gone toward newly developed markets rather than to Japan, since even in Japan the potential for expansion in the years ahead now appears somewhat more limited.

U.S. Department of Agriculture • Foreign Agricultural Service • Washington, D.C.

foreign agriculture circular

grains

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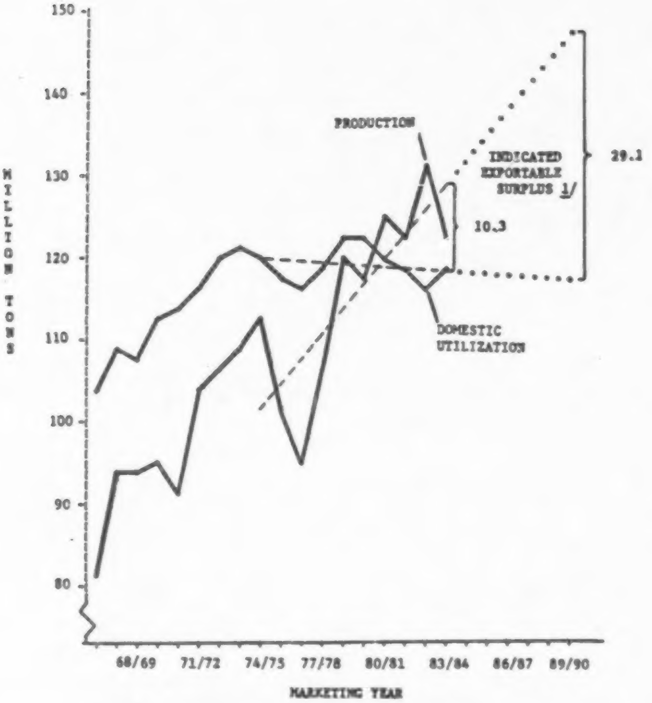
FG-3-84*
March 1984

EXPORT MARKETS FOR U.S. GRAIN AND FEED COMMODITIES

EXPANDING EC WHEAT AND COARSE GRAIN SURPLUS



1/ The difference between extrapolations of trend lines calculated for the 1974/75-1983/84 base period.

*The EC has announced a new program to help dispose of further grain surpluses. For details see page 14.

EXPORT MARKETS FOR U.S. GRAIN AND FEED COMMODITIES
March 30, 1984

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*HIGHLIGHTS**

U.S. coarse grain export prospects have improved over the month, as some major importers have stepped-up purchases. Importers continue to show an interest in feed wheat with some apparently considering significant purchases. Wheat exporters have intensified efforts to dispose of surplus wheat into export channels by competing in feedgrain markets. It remains uncertain to what extent these efforts will be successful and what the longer-term effects of these efforts may be.

U.S. wheat export prospects remain unchanged for the current marketing year, though attention is beginning to focus more on new-crop prospects, and expectations of continued burdensome wheat supplies in other exporting countries. U.S. rice export prospects continue to be depressed, as hopes for sales to some markets remain uncertain.

Major developments affecting U.S. exports over the past month include:

--Continued strong Soviet, South African, and Japanese corn purchases from the United States reflected strengthening world coarse grain demand and resulted in an increase of just over a million tons in the U.S. coarse grain export forecast.

--An EC decision to reduce wheat stock levels by denaturing 1 million tons of bread wheat for export; however, to date the EC has not reported any sales of this wheat.

--Reports that South Africa is considering purchases of up to 1 million tons of feed wheat to offset some of their record corn import requirements; though there are questions as to whether South Africa could absorb significant quantities of wheat in their feed rations.

--South Korea's continued purchasing of Australian feed wheat.

--Australia's continued push to move its large supplies of downgraded general purpose wheat, including feed wheat. To date, however, this effort has only met with success in Bangladesh and South Korea.

--Brazil's decision to restrict corn exports this season, due to a reduced crop.

--Mexico's continued purchases of rice, though none of the purchases have been from the United States.

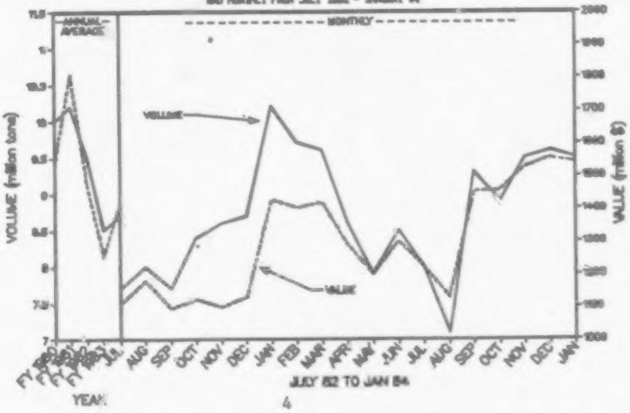
--Increased uncertainty for U.S. rice sales to Nigeria, due to recently announced Nigerian government policy of buying rice only on a government-to-government basis.

QUANTITY AND VALUE OF U.S. GRAIN AND FEED COMMODITY EXPORTS
IN FISCAL YEAR 1983 AND COMPARISON WITH PRECEEDING YEAR

	January		CUMULATIVE OCT THRU JAN		ACTUAL EXPORTS	PROJECTED EXPORTS
	FY 83	FY 84	FY 83	FY 84	FY 83	FY 84
WHEAT (grain only)						
Quantity (1000 tons)	3,909	3,237	11,580	12,675	36,699	37,500
Value Per Ton (dollars)	163	160	160	163	161	164
Value (in million dollars)	639	518	1,856	2,062	5,910	6,150
CORN (grain only)						
Quantity (1000 tons)	4,431	4,375	17,362	17,730	47,105	47,830
Value Per Ton (dollars)	111	152	105	149	121	145
Value (in million dollars)	491	662	1,818	2,639	5,717	6,935
SORGHUM (grain only)						
Quantity (1000 tons)	632	682	2,329	2,257	5,403	5,715
Value Per Ton (dollars)	119	135	111	139	122	136
Value (in million dollars)	75	92	259	314	660	777
BARLEY, OATS, AND RYE (grain only)						
Quantity (1000 tons)	163	167	292	881	973	2,260
Value Per Ton (dollars)	117	132	113	134	121	139
Value (in million dollars)	19	22	33	118	118	314
TOTAL COARSE GRAINS (grain only)						
Quantity (1000 tons)	3.226	5,224	19,983	20,868	53,481	55,805
Value Per Ton (dollars)	112	149	106	147	121	144
Value (in million dollars)	585	776	2,110	3,071	6,496	8,026
RICE (grain only)						
Quantity (1000 tons)	108	139	536	689	2,209	2,100
Value Per Ton	407	432	420	425	396	430
Value (in million dollars)	44	60	225	293	874	903
PULSES						
Quantity (1000 tons)	44	39	212	168	457	450
Value Per Ton (dollars)	409	487	425	464	416	444
Value (in million dollars)	18	19	90	79	190	200
FLOUR AND OTHER GRAIN PRODUCTS						
Quantity (1000 tons-gr. equiv)	105	89	259	470	3,490	2,900
Value Per Ton (dollars)	362	438	563	343	165	224
Value (in million dollars)	38	39	146	161	579	650
FORAGE, HAY, MIXED FEED AND GRAIN BYPRODUCTS						
Quantity (1000 tons)	626	686	2,086	2,296	6,991	7,000
Value Per Ton (dollars)	165	176	168	176	164	179
Value (in million dollars)	103	121	350	408	1,145	1,250
TOTAL VOLUME (in thousand tons)	10,081	9,493	35,015	37,490	103,337	105,755
TOTAL VALUE (in million dollars)	1,427	1,534	4,777	6,071	15,194	17,179

Source: US Census

MONTHLY EXPORT RATES FOR U.S. GRAIN AND FEED COMMODITIES
ANNUAL MONTHLY AVERAGES FOR FY 1980 - 1984 (proj)
AND MONTHLY FROM JULY 1982 - JANUARY 84



WHEAT

LATEST U.S. EXPORT FORECAST, SHIPMENTS AND SALES

Export Forecast. As of March 30, the forecast for June-May 1983/84 wheat exports--excluding 2 million tons of products--remains at 36.1 million tons.

Shipments and Sales. Shipments for the 4-week period ending March 22 were somewhat below the preceeding period and were a million tons below the level for the same period last year. Sales were off from the previous period by slightly more than a million tons; however, exports are sufficiently strong to assure reaching the forecast export level.

IMPORTER BUYING ACTIVITY

Over the past month, China was absent from the wheat market, while the Soviet Union made an additional purchase of EC wheat. Brazil returned to the U.S. market for new crop wheat under their outstanding GSM-102 credit line. Several other Latin American countries continue to make small purchases of U.S. wheat and Peru purchased additional Argentine wheat. Notably, Spain purchased about 90,000 tons of wheat from Argentina early in the month, reportedly for feed; this marks the first such purchase in recent years. Korea has continued to purchase Australian feed wheat.

RECENT WHEAT AND FLOUR IMPORTER BUYING ACTIVITY
REPORTED BETWEEN FEB. 23 1983 AND MAR. 28, 1984

Approx. Date of Purchase	Buyer	Origin	Quantity (Tons)	Grade 1/	Price Range 2/ ($US per ton)	Delivery Period 3/
3/2	Algeria	EC	30,000	Wheat	148.50 C&F	LH Jun
3/14	Brazil	U.S.	33,000	HRW	147.18	Jun
3/28	Brazil	U.S.	198,000	HRW 11%	147.97 @ 150.61	Jun-Jul
2/29	Ecuador	U.S.	26,000	HRW 1[illegible] %	153.89	Apr
3/2	Egypt	U.S.	80,610	Wheat Flour	217.81 @ 227.99 FAS	Apr
3/12	Egypt	U.S.	144,000	WW	134.19 @ 145.39	Apr
3/23	Egypt	U.S.	66,700	Flour	219.89 @ 233.50	Apr-May
3/22	El Salvador	U.S.	60,000	HRS	Various	Apr-Jun
3/14	Honduras	U.S.	31,563	SRW, HRS, HAD	131.97 @ 181.15	Apr-May
[illegible]	Indonesia	U.S.	84,752	HRS 14%	174.74 @ 178.28	Apr-May
[illegible]	Israel	U.S.	90,000	HRW 12%	?	Apr-Jun
3/20	Israel	U.S.	60,000	HRS	?	Apr-Jun
2/24	Jordan	U.S.	50,000	HRW	170.95 C&F	Mar-May
3/2	Jordan	Optional	25,000	Wheat	155.90 C&F	Apr
3/2	Jordan	U.S.	25,000	Wheat	164.40 C&F	Jun
2/24	Korea	U.S.	58,500	White, HRW, HRS	Various	Mar-Apr
3/24	Korea	Optional	30,000	Feed Wheat	140.25 C&F	Mar
3/24	Korea	U.S.	109,200	White, HRS, HRW	Various	Apr-May
3/15	Morocco	U.S.	175,175	#2 SRW	132.98 @ 146.61	Apr-May
3/23	Peru	U.S.	20,000	HRW	157.89	Apr
3/26	Peru	Argentine	25,000	Wheat	128.00	Mar
3/28	Peru	Argentine	25,000	Wheat	139.25	Apr
2/24	Portugal	U.S.	3,000	HRW	152.10	Mar
3/24	Portugal	U.S.	30,000	SRW	135.00	Mar-Apr
3/28	Portugal	U.S.	30,000	SRW	152.00	FH-May
3/27	Sierra Leone	U.S.	6,300	HRW 12.75%	164.97	LH-Apr
3/8	Spain	Argentina	90,000	Wheat	?	Apr
3/23	Taiwan	U.S.	16,000	HRW	209.94	Apr
3/23	Taiwan	U.S.	11,000	HRW	169.04	Apr
3/27	Tunisia	France	25,000	Wheat	160.00 C&F	FH-May
3/28	Tunisia	France	25,000	Wheat	160.00 C&F	LH-May
3/13	USSR	EC	125,000-200,000	Soft Wheat	140.00 @ 142.00	83/84
[illegible]/27	Yemen	Australia	100,000	Standard White	158.75 C&F	Apr-Jul
[illegible]	Zaire	U.S.	10,000	HRW 12 1/2%	158.98	Mar-Apr

1/ HRW-Hard Red Winter, HRS-Hard Red Spring, SRW-Soft Red Winter, HAD-Hard Amber Durum.
2/ FOB unless otherwise noted.
3/ FH denotes first half; LH, last half.

SOURCE: Unofficial market news reports.

US WHEAT SHIPMENTS, SALES, AND INSPECTIONS 1/
(JUNE/MAY--MILLION TONS)

Monthly Shipments

4 Weeks Ending	1982/83	1983/84
December 29	2.2	3.2
January 26	2.2	2.8
February 23	3.9	2.9
March 22	3.5	2.5
Cumulative for MY....	31.9	28.8

Monthly Sales 2/

Weeks Ending	1982/83	1983/84
December 29	4.4	2.9
January 26	1.8	3.2
February 23	2.6	3.1
March 22	2.0	1.9
Cumulative for MY......	38.7	36.1

Weekly and Annual Inspection Rates

	Million MT	Million BU
Week Ending March 15	.6	20.4
Week Ending March 22	.8	28.1
Offici.l Estimate for Current MY (Grain only)........................	36.1	1325
Implied Weekly Average............	0.7	25.5
Latest Six Weeks Weekly Average.....................	.7	24.2
Marketing Year-To-Date		
Weekly Average......................	.7	26.6
Weekly Avg. Extrapolated Annually..	37.6	1383
Balance of Year to Achieve Estimate Implied Weekly Average.............	.6	21.3

1/ Shipments and sales data from U.S. Export Sales. Inspections data from Federal Grain Inspection Service.

2/ Sales made since the beginning of the applicable marketing year, including sales for shipment in the next marketing year.

WHEAT SHIPMENTS BY MAJOR EXPORTING COUNTRIES
RECENT MONTHS AND SEASON TOTALS FOR 1982/83-1983/84
(JULY/JUNE--MILLION TONS)

4 Weeks Ending 1/	Canada		Australia		Argentina		France 2/		Total	
	82/83	83/84	82/83	83/84	82/83	83/84	82/83	83/84	82/83	83/84
December 29	1.6	1.3	.8	.9	.3	.7	1.1	.9	3.8	4.0
January 26	1.0	.9	.7	1.6	1.6	1.7	1.1	.7	3.6	N/A
February 23	1.1	.8	.9	1.9	1.9	1.9	.8	N/A	4.5	N/A
March 22	1.4	.8	.7	1.2	1.5	1.2	1.0	N/A	4.7	N/A
Cumul. in MY	14.2	14.2	7.1	7.8	5.4	7.8	7.6	6.2	34.3	36.0
Total for Season 3/	21.2	21.5	8.1	11.0	7.4	8.3	10.0	10.5	46.7	51.3

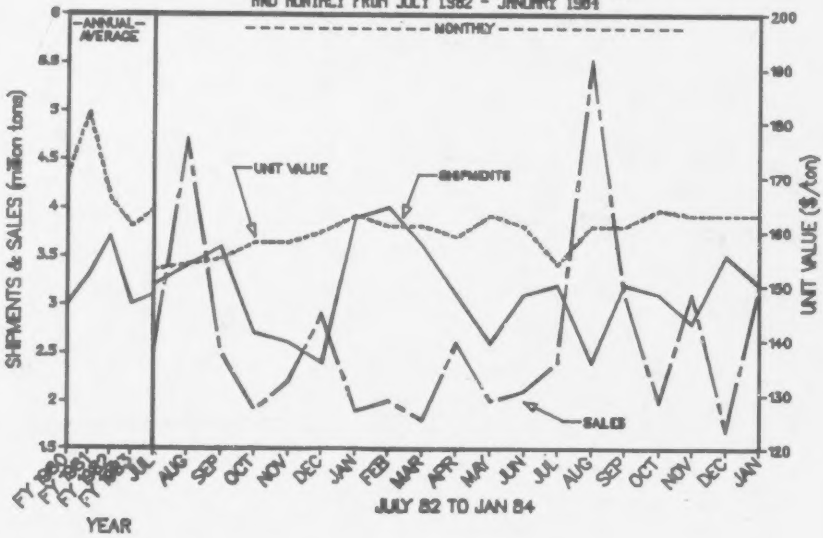
1/ Or nearest date thereto.

2/ Excludes intra-EC trade. Cumulative reflects available data.

3/ Projection for 1983/84.

* Denotes less than 50,000 tons.

U.S. WHEAT SHIPMENTS, SALES AND UNIT VALUE
ANNUAL MONTHLY AVERAGES FOR FY 1980 - 1984 (proj)
AND MONTHLY FROM JULY 1982 - JANUARY 1984



U.S. WHEAT EXPORT COMMITMENTS BY CLASS TO MAJOR DESTINATIONS
TOTAL EXPORTS FOR 1981/82-1982/83; COMMITMENTS TO DATE FOR 1983/84 WITH COMPARISON TO 1982/83
(JUNE/MAY—1,000 TONS)

Destination	Marketing Year	Hard Red Winter	Hard Red Spring	Soft Red	All White	Durum	Total Exports
EC-10	1981/82	185	1,416	123	5	749	2,478
	1982/83	3	1,162	35	53	495	1,748
	1982/83*	3	1,073	35	53	483	1,648
	1983/84**	3	1,082	8	—	247	1,339
Other W. Europe	1981/82	709	244	1,151	11	97	2,213
	1982/83	343	95	289	4	7	738
	1982/83*	342	87	291	4	7	730
	1983/84**	866	21	379	15	31	1,312
Eastern Europe	1981/82	22	—	425	—	107	554
	1982/83	—	—	122	—	74	196
	1982/83*	—	—	61	—	51	112
	1983/84**	—	—	283	—	71	354
USSR	1981/82	6,539	—	—	—	—	6,539
	1982/83	3,374	—	—	—	—	3,374
	1982/83*	3,368	—	—	—	—	3,368
	1983/84**	4,204	—	—	—	—	4,204
China	1981/82	115	—	7,830	5	—	7,950
	1982/83	386	—	4,938	—	—	5,324
	1982/83*	418	—	4,952	—	—	5,370
	1983/84**	1,306	—	1,567	—	—	2,873
Japan	1981/82	1,301	831	60	1,193	32	3,417
	1982/83	1,266	987	20	1,049	—	3,322
	1982/83*	1,232	980	20	1,077	—	3,309
	1983/84**	1,226	982	—	1,103	9	3,319
India	1981/82	498	—	—	1,082	—	1,580
	1982/83	2,480	—	—	1,405	—	3,885
	1982/83*	2,624	—	—	1,402	—	4,026
	1983/84**	198	—	—	968	—	1,166
Rep. of Korea	1981/82	621	149	3	1,048	—	1,821
	1982/83	605	162	—	990	—	1,757
	1982/83*	568	141	—	947	—	1,656
	1983/84**	629	209	2	1,144	—	1,984
Other Asia, Middle East, and Oceania	1981/82	1,598	1,429	1,008	1,297	—	5,330
	1982/83	2,554	1,858	833	568	1	5,814
	1982/83*	2,614	1,835	761	581	1	5,792
	1983/84**	2,641	1,434	258	1,324	21	5,677
Egypt	1981/82	—	—	—	2,483	—	2,483
	1982/83	—	—	397	1,331	—	1,728
	1982/83*	—	—	238	1,134	—	1,372
	1983/84**	—	—	530	656	—	1,186
Nigeria	1981/82	1,193	118	31	—	—	1,272
	1982/83	918	242	81	—	—	1,241
	1982/83*	869	242	73	—	—	1,184
	1983/84**	1,084	258	69	—	—	1,411
Other Africa	1981/82	526	86	1,329	—	907	2,917
	1982/83	611	95	1,086	—	666	2,458
	1982/83*	559	95	1,029	—	487	2,169
	1983/84**	451	5	1,758	3	801	3,017
Mexico	1981/82	767	—	—	—	—	767
	1982/83	57	—	—	—	—	57
	1982/83*	57	—	—	—	—	57
	1983/84**	—	—	—	—	—	—
Brazil	1981/82	2,961	—	126	—	28	3,115
	1982/83	2,113	—	—	—	—	2,113
	1982/83*	2,244	—	—	—	—	2,244
	1983/84**	2,211	—	66	—	—	2,277
Other W. Hemis.	1981/82	2,602	1,257	307	176	315	4,657
	1982/83	2,172	1,464	539	8	271	4,474
	1982/83*	2,060	1,452	536	10	281	4,339
	1983/84**	2,052	1,502	319	47	307	4,427
Total 1/	1981/82	19,637	5,540	12,391	7,300	2,242	47,110
	1982/83	16,881	6,065	8,360	5,408	1,514	38,228
	1982/83*	17,284	6,037	8,238	5,207	1,460	38,225
	1983/84**	16,938	5,615	5,462	5,245	1,503	34,763
	MY Projection 2/	19,051	6,123	5,715	5,443	1,769	38,100

1/ Discrepancies due to rounding and sales to unknown destinations.

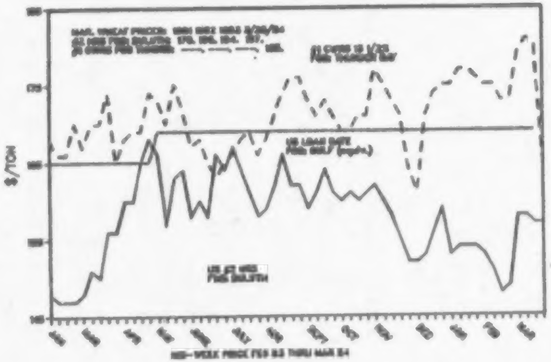
2/ Projection for 1983/84, including flour and products.

* Sales plus accumulated exports as of March 24, 1983, excluding sales for next marketing year.

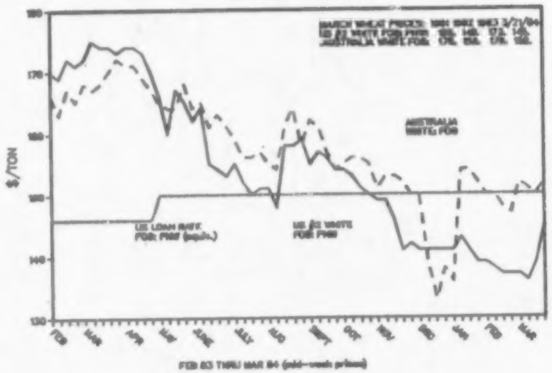
** Sales plus accumulated exports as of March 22, 1984, excluding sales for next marketing year.

Source: U.S. Export Sales

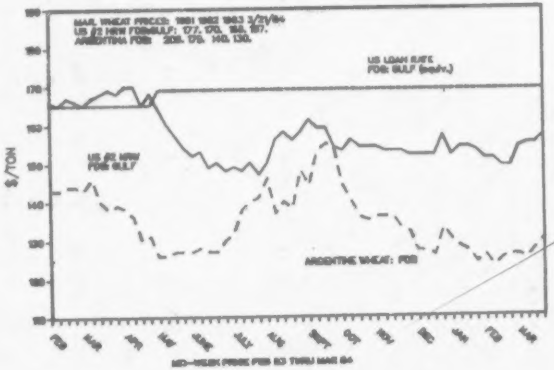
HARD RED SPRING WHEAT EXPORT PRICES
U.S. AND CANADIAN



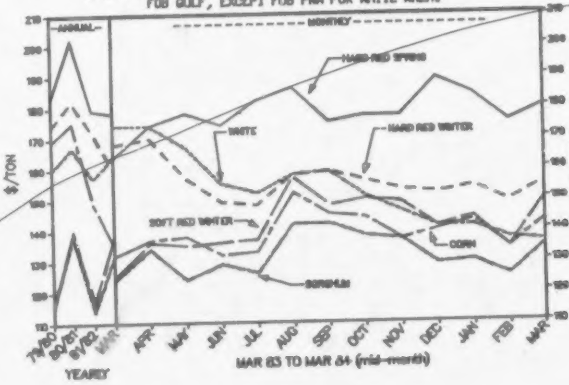
WHITE WHEAT EXPORT PRICES
U.S. AND AUSTRALIAN



HARD RED WINTER WHEAT EXPORT PRICES
U.S. AND ARGENTINE



U.S. GRAIN COMMODITY EXPORT PRICES
FOB GULF, EXCEPT FOB PNW FOR WHITE WHEAT



OTHER DEVELOPMENTS AFFECTING U.S. EXPORTS

Other Exporting Countries Selling Activity and Competitive Practices

**Australia: The Australian government reportedly has guaranteed $700 million worth of credit for wheat purchases, more than double last year's level for all exports. This policy is intended to allow Australia to accept deferred payment instead of immediate settlement, in hopes of marketing more wheat in an intensely competitive world market. In the past, Australia has emphasized cash markets. These government guarantees may make Australian wheat more competitive even in countries with poor credit ratings. The Australians have identified $290 million of wheat to Egypt and $210 million to Iraq as covered by these guarantees; the rest is reportedly to cover sales to a number of Middle Eastern, Asian Pacific and South American markets.

**France: Reports indicate that an additional 125,000-200,000 tons of French soft wheat have been sold to the USSR, bringing total sales this year to an all time high of about 3.3 million tons. France shipped about 3.1 million tons to the Soviets in July-June 1982/83. Through January, over two-thirds of the French wheat sales to the Soviets had been shipped. The Soviets could well add to their purchases of French wheat if prices for denatured wheat for feed are competitive with prices of other grains imported for feed.

Special Report: Argentina Moves To Increase Grain Production

Argentina has successfully increased total grain production from about an annual average of 25 million tons in the 1977/78-1981/82 period to an average of about 32 million in the past two seasons. This growth has been very important to the Argentine economy as grain exports are major foreign exchange earners. The growth has been primarily in wheat production, nearly doubling from about an average 7.5 million tons in previous years to an average 13 million in 1982/83-1983/84. The Argentine government is striving to encourage continued increased production, through the reduction of input costs and improvements in the marketing infrastructure. These directives are expected to impact primarily on future wheat production.

As a first step, the Argentine government has introduced a number of measures to encourage fertilizer use, including the elimination of an existing 25-percent import duty on the types of fertilizers manufactured locally (imported fertilizers did not have any import duties) and the reduction of the value-added tax on all fertilizers from 18 to 5 percent. To maximize the potential benefit of these actions on the 1984 Argentine wheat crop, the Grain Board has been directed, for the first time, to import fertilizer from overseas suppliers for delivery before wheat plantings take place June-August. The Argentine Grain Board is believed to have arranged for 40,000 tons of imports, through barter arrangements. This includes 10,000 tons from Mexico, apparently negotiated at the time of Mexico's recent purchase of Argentine grain and oilseeds. The Board's fertilizer will be delivered to local coops and grain wholesalers, which in turn will pass it on to wheat farmers. The Grain Board will be paid with a yet unspecified quantity of delivered grain for each ton of fertilizer delivered. Farmers are also expected to be extended credit for fertilizer purchases; this credit is partially funded by the Inter-American Development Bank.

According to statements by the Argentine Agricultural Secretary, these measures could increase fertilized grain area by 700,000 hectares and total fertilized area could be increased 3-4 fold in the next 3-4 years. With the exception of wheat, Argentine grains and oilseeds are generally not fertilized. Last year about 13 percent of the wheat area, just under a million hectares, was fertilized. In general, fertilizer applications could increase wheat yields by roughly 15 percent. If 700,000 additional hectares of wheat were fertilized this year, this could translate into about 300,000 tons of additional output. Argentine wheat consumption is fairly stable at 4-4.5 million tons annually; any additional production directly translates into additional export availabilities.

Competitive Developments in Selected Foreign Markets

**Syria: Low domestic procurements this season are expected to raise Syrian wheat imports to over 900,000 tons in July-June 1983/84, more than double that in 1982/83. Canada has benefited the most from increased Syrian wheat import demand. Possible problems with the current crop may mean large imports next season as well.

In addition, Syrian wheat imports may be sustained at higher levels in future years due to efforts to increase milling capacity and development of bulk grain handling facilities. Syria was able to import grain in bulk for the first time with the opening of the Tortous Port silo in early 1983. Syria has pushed to increase milling capacity since 1982, and has contracted with East Germany to construct 11 new wheat flour mills. Syrian wheat flour imports have fallen dramatically from the 200,000-400,000-ton annual level in previous years.

SYRIAN WHEAT IMPORTS (1,000 TONS)			SYRIAN WHEAT FLOUR IMPORTS (1,000 TONS)		
Origin	1982/83 Jul-Jun	1983/84 Jul-Dec	Origin	1982/83 Jul-Jun	1983/84 Jul-Dec
Canada	80	325	France	44	—
France	80	125	Greece	11	6
U.S.	51	—	Italy	—	15
Other EC	125	—	Turkey	17	—
TOTAL	336	450	TOTAL	72	21

**Bangladesh: The U.S. share of Bangladesh's commercial wheat imports during July-June 1983/84 is expected to fall well below last year's level. Australia has sold an increased amount, including some of its unusually large supply of downgraded general purpose wheat. Reports also indicate that Bangladesh has finalized an agreement to purchase 200,000 tons of the Australian wheat on 3-year credit, bringing total Australian commercial sales to Bangladesh to just over 400,000 tons. Bangladesh was expected to buy about 500,000 tons of wheat commercially in July-June 1983/84; the only U.S. commercial sales to Bangladesh for this period total 140,000 tons purchased against the FY 1983 credit allocations, and no additional sales are expected.

**Philippines: Total Philippine wheat imports may only reach 800,000 tons this season, compared to 940,000 tons in 1982/83, a 15-percent decline, due to foreign exchange difficulties and significantly higher domestic prices for flour and bakery products. Import arrivals during July-December 1983 were 29 percent lower than the same period in 1982. Recent Philippine imports have averaged nearly 900,000 tons annually, virtually all from the United States.

Although wheat consumption had been steadily growing in recent years, it is now expected to decline. The present situation is expected to dampen the proliferation of Western style fast food outlets. Consumption of higher priced baking goods, such as cakes and pastries, is expected to decline, and bakeries are expected to concentrate on production of more basic food items such as 'pan de sol' and bread. Increasing financial constraints are expected to encourage the government's attempts to partially substitute rice flour for wheat flour and may include experimentation with the possible substitution of other flours, such as cassava.

**Zimbabwe: Because of low water levels in reservoirs, the Ministry of State for Water Resources and Development (MSIPA) recently announced that it will be necessary to curtail water for irrigation so that urban water supplies can be assured. Irrigated wheat area may be cut in half, reducing production and increasing import requirements for 1984/85 to as much as 150,000 tons. Zimbabwe imported an average of about 50,000 tons during each of the last two years.

**New Zealand: Poor weather apparently damaged a substantial portion of New Zealand's 1983 wheat crop, necessitating larger imports and also encouraging New Zealand to export low-quality damaged wheat. Apparently the lack of sufficient quantities of millable quality wheat has increased New Zealand's imports from about 50,000-70,000 tons in recent years to 120,000 tons in July-June 1983/84; all imports have been from Australia. On the other hand, larger quantities of poor quality wheat were disposed of in export markets; New Zealand sold Korea 21,000 tons as feed wheat and 21,000 tons to Bangladesh. New Zealand has not generally exported wheat in past years. In addition, reports indicate that the 1984 wheat harvest, presently under way, is expected to again have a large quantity of wheat not suitable for milling, making additional exports likely.

**Thailand: Thai wheat imports are expected to continue to increase given the strong growth in the Thai economy; however, the U.S. faces increasing competition from Australian wheat and Japanese wheat flour in the Thai market; and the U.S. share of the Thai wheat and flour market could deteriorate.

Australia is pushing hard to increase its market share in Thailand, generally shipping about 50,000-70,000 tons annually in recent years, with total Thai imports ranging from about 160,000-210,000 tons annually. Apparently some Thai interest has surfaced in exploring the potential for using Australian hard wheats; Thailand primarily buys U.S. hard red winter and hard red spring wheat. Japanese flour has also increased competition in the Thai market with landed prices currently reported to be US$1-15 per ton cheaper than comparable prices for U.S. wheat.

Internal Price Policies of Foreign Countries

**Venezuela: Venezuela has maintained wheat imports at an 800,000-ton-plus level despite growing foreign exchange difficulties by permitting essential imports, including grain, to be imported at a preferential exchange rate. The United States has traditionally supplied virtually all of Venezuela's wheat import needs. Apparently Canada and France have offered Venezuela feed quality wheat, however, the current Venezuelan foreign exchange regulations make these offers non-competitive with U.S. Gulf quotations, plus freight. The current Venezuelan foreign exchange control system allows freight payment of 10 percent of the FOB commodity value (calculated at the preferential exchange rate) and has provided an advantage for U.S. grain exports, particularly from the Gulf.

**Major Exporters: The latest internal support price for the principal world wheat exporters, on an individual marketing year basis, are listed below. Prices are not strictly comparable because of quality differences and because U.S., Argentine and EC prices are on a local delivery point basis, while Canadian and Australian prices are on an export position basis. For example, in terms of quality differentials, the Canadian price in 1982/83 is for No.1 CWRS, which only represented 25 percent of the 1982 crop; Canadian No.2 CWRS was discounted by approximately C$6 per ton and No.3 CWRS by about C$11 per ton. EC prices given below do not include monthly storage payments.

MAJOR EXPORTER SUPPORT PRICES FOR WHEAT

Exporter	1982/83 U.S.$ Equivalent		1982/83 Local Currency	1983/84 U.S.$ Equivalent		1983/84 Local Currency
	per bu	per ton	per ton	per bu	per ton	per ton
U.S. (loan)	3.55	130	130 ($)	3.65	134	134 ($)
(reserve loan)	4.00	147	147	3.65	134	134
Argentina (reference)	2.13	78	860 1/	2.67	98	3060 (pesos) 1/
Australia (min. pay.)	3.69	136	141 (A$)	3.72	137	150 (A$)
(final pay.)	N/A	N/A	N/A	N/A	N/A	N/A
Canada (initial pay.)	3.87	142	175 (C$)	3.75	138	170 (C$)
(final pay.)	N/A	N/A	N/A	N/A	N/A	N/A
EC (intervention)	4.68	172	179 (ECU)	4.39	161	185
(reference)	5.47	201	209	5.10	187	215

1/ In new pesos, current season prices can be adjusted when necessary because of currency fluctuations. Caution should be taken when using this price in US$ equivalent, because of the volatility of the Argentine exchange rate; 1983/84 rate effective as of 3/26/84.

N/A Not available.

U.S. EXPORT EXPANSION ACTIVITY

**GSM-102: A blended credit program covering the sale of $2.5 million (approximately 10,000 tons) of wheat flour to Jamaica has been announced. Around $2.2 million of the credit line was still available as of March 19, 1984. In addition, $1 million in credit guarantees to Guatemala have been shifted from sales of U.S. wheat to breeding livestock, reducing the coverage for wheat sales to $18 million. Only around $3 million of the credit line was still available as of mid-March.

U.S. WHEAT/WHEAT FLOUR TRADE WITH SELECTED COUNTRIES UNDER CCC GUARANTEE PROGRAMS *
(MILLION DOLLARS)

	FY 1983		FY 1984
	CCC Credit Guarantees Approved	Total Exports	CCC Credit Guarantees Announced
Algeria	—	114	160 1/
Bangladesh	28	105	—
Brazil	412 1/	355	445
Chile	110 1/	155	75
Colombia	—	141	85
Costa Rica	3	15	—
Dominican Republic	13	33	10
Ecuador	34	51	30
Egypt	178 1/	459	65 1/
Guatemala	19	20	18
Haiti	8	21	5
Iraq	210 1/	176	155
Jamaica 1/	7 1/	15	16 1/
Korea	126	301	130
Morocco 1/	161 1/	182	244
Nigeria	30	195	—
Peru	127	123	100
Philippines	19	166	75
Portugal 1/	87 1/	80	117
Tunisia 1/	48 1/	57	133 1/
Turkey	—	—	24
Yemen	53	40	—
Yugoslavia	41	40	—
TOTAL	1,714	2,844	1,887

* Includes GSM-102 and GSM-5.

1/ Includes GSM-5 credit guarantees.

**PL-480: A PL-480 Title I agreement with Somalia was signed providing for sales of approximately 8,000 tons of U.S. wheat and 15,000 tons of wheat flour. The supply period for the agreement is fiscal 1984.

U.S. WHEAT/WHEAT FLOUR TRADE UNDER PL-480 WITH SELECTED COUNTRIES *
(1,000 TONS)

	FY 1983		FY 1984
	Exports Under PL-480	Total Exports	Agreements Signed 1/
Bangladesh	228	803	197
Bolivia	137	137	60
Costa Rica	70	85	127
Egypt	1,474 2/	3,536	1,545 2/
El Salvador	131	135	106
Honduras	71	107	17
Indonesia	83	914	88
Morocco	194	1,320	175
Somalia	23 2/	34	28 2/
Sri Lanka	155	216	150
Sudan	297 2/	480	182 2/
Zaire	60 2/	73	58 2/
TOTAL	2,923	7,840	2,733

* Transactions under Title I and III.

1/ Approximate quantities based on dollar value of agreements.

2/ Includes grain equivalent of flour.

SPECIAL REPORT

Impact of EC Grain Surplus Disposal Program

In a move that will mean expanding EC wheat exports, the Community has decided to sell 750,000 tons of denatured bread wheat from intervention stocks onto the export market as feed wheat. Pending formal approval, the EC will also reportedly open an export tender in 2 or 3 weeks for 250,000 tons of denatured wheat from the free market. The decision to export denatured wheat for use as feed has been taken as a result of: (1) the slow progress in the current program to sell 2 MMT of wheat from intervention stocks for domestic use as animal feed (only 800,000 tons sold thus far), (2) the increasing likelihood of another record wheat harvest and (3) good prospects for a normal barley crop (in contrast to the poor crop in 1983) which could mean reduced domestic demand for wheat in feed rations from the unusually high 1983/84 level.

According to Community sources, exports of denatured wheat for feeding will not be counted against the EC's self-imposed limit of 13 MMT on commercial exports of bread-making wheat and flour. Therefore total EC wheat exports could be 5-10% above the current 16 MMT forecast (which includes aid shipments durum, and durum products), and could displace U.S. feedgrain exports to the USSR, Spain, North Africa and East Europe. From the EC's point of view the timing is most propitious now. Not only would the Community reduce domestic stocks to more normal levels, but the current high feedgrain prices and the still relatively strong dollar means lower export subsidy costs. Also, the prevailing tight global feedgrain market provides "logical" justification for expanded feed wheat exports-particularly in lieu of unusually low EC barley exports this year.

The new EC scheme to sell subsidized, denatured feed wheat onto the world market could be the beginning of another major dimension of trade impact upon U.S. grain exports. Initially, high import levies under the CAP made imported feedgrains uncompetitive with domestically produced grains, which affected U.S. corn exports. More recently, as the internal EC market became saturated with home-produced grain, the Community increased its subsidized exports of wheat on to the world milling wheat market, which have also affected U.S. wheat exports. These developments are illustrated in Chart I and II.

Now, with further increases in the EC's surplus becoming more difficult to dispose of on the world milling wheat market (for soft-type wheat), the Community may be looking to the world feedgrain market. Current production and use trends indicate that the EC net surplus of grain could rise by another 10 MMT or more in the next few years, bringing another dimension of impact upon U.S. grain exports.

During its first several years after formation, the EC was the major market for U.S. corn, taking more than half of all U.S. corn exports. But EC agricultural policies, which favor domestic rather than imported grain, have, as mentioned above, steadily eroded that position. U.S. corn exports to the EC have now fallen from an average of about 12 MMT in the mid to late 1970's to only 4 MMT this year. Although EC import and price policies have affected purchases of all imported corn, demand for U.S. corn has been most adversely affected because the U.S. share had grown to over 90 percent of the total EC corn import market. This development is illustrated in Chart III.

Another development in the Community's CAP for grains has been a growing divergence between the threshold price for imported grain (price at which grain must enter the Community after paying the import levy or duty) and the intervention price (guaranteed domestic purchase price) for local grains. For example, although U.S. corn could be landed in Rotterdam for under $160 per ton, the current import levy of $50 per tons brings the cost of U.S. corn to about $210 compared to the intervention price for domestically-produced grain of only $170 per ton. This divergence, in effect, has increasingly discriminated against imported grains while encouraging use of "lower-priced" domestic grains.

In past years, Community preference for local grains was partially offset by an aggressive export policy which removed surplus grains from the domestic market. However, with record or near-record harvests in recent years, and stagnating domestic use, production surpluses have grown too large to be effectively siphoned off through current export programs. Excess supplies have consequently forced domestic prices below intervention levels, and increased the preference for EC grain to the further detriment of imports.

CHART I

EC WHEAT & COARSE GRAIN IMPORTS
1967-1984

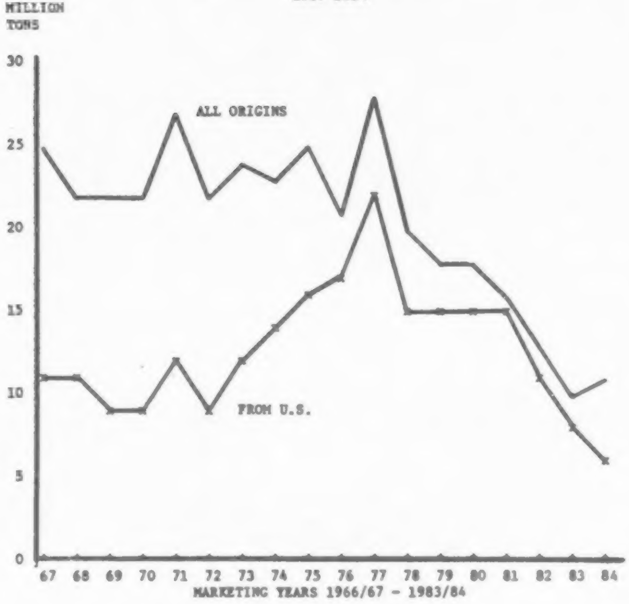


CHART II

EC WHEAT & COARSE GRAIN EXPORTS
1967-1984

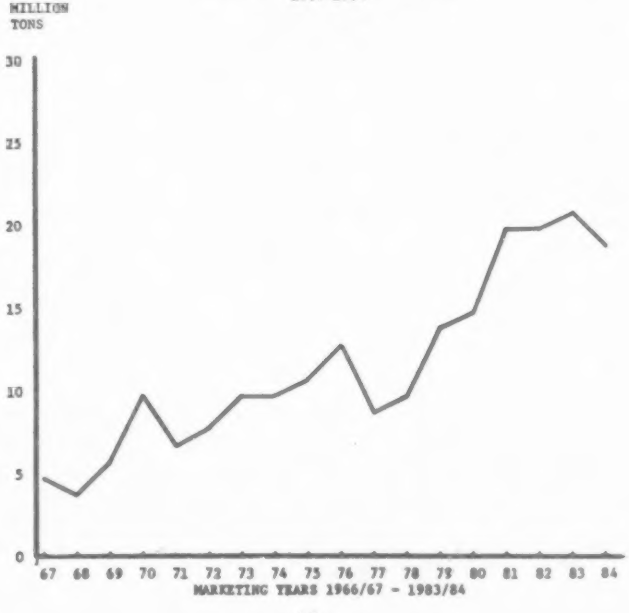
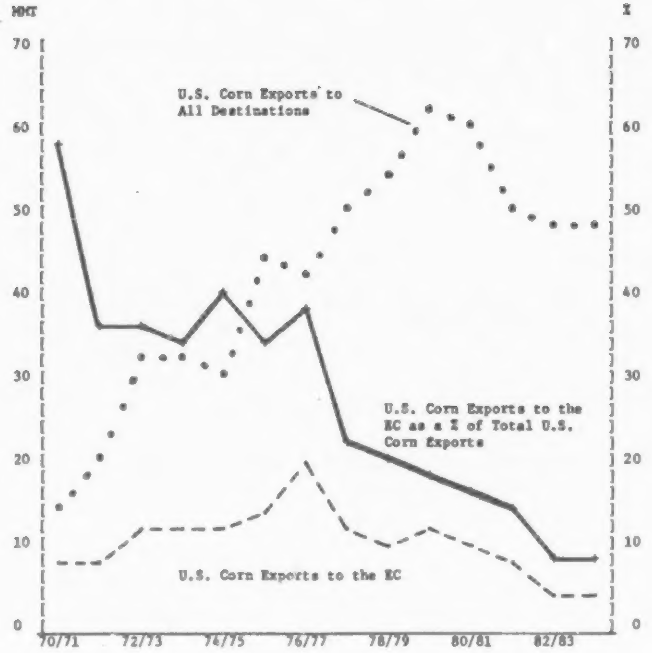


CHART III

US-EC CORN TRADE



US-EC Corn Trade
(October/September)

	U.S. Corn Exports to All Destinations (MMT)	U.S. Corn Exports to EC (MMT)	U.S. Corn exports to the EC as Share of Total U.S. Corn Exports (%)	EC Corn Imports from All Origins (MMT)	U.S. Share of Total EC Corn Imports (%)
1970/71	13.1	7.6	58.0	11.6	65.5
1971/72	20.2	7.1	35.1	12.2	58.2
1972/73	31.9	11.5	36.1	14.7	78.2
1973/74	31.6	10.7	33.9	14.2	75.3
1874/75	29.2	11.7	40.0	14.0	83.6
1975/76	43.5	14.6	33.6	17.0	85.9
1976/77*	42.8	18.9	37.8	21.7	87.1
1977/78	49.5	11.0	22.2	13.1	84.0
1978/79	54.2	10.2	18.8	12.2	83.6
1979/80	61.8	11.4	18.4	12.3	92.7
1980/81	59.7	9.5	15.9	10.3	92.2
1981/82	49.9	7.0	14.0	7.6	92.1
1982/83	47.5	4.0	8.4	5.1	78.4
1983/84 Forecast	(48.3)	(4.0)	(8.3)	(4.8)	(83.3)

*Severe West European drought which adversely impacted summer feedgrain production.

EC TOTAL WHEAT AND COARSE GRAIN PRODUCTION, DOMESTIC UTILIZATION AND TRADE

Year	Imports	Imports From U.S.	Exports	Production	Domestic Utilization
			(million metric tons)		
1966/67	23.3	11.4	3.1	81.9	104.0
1967/68	22.5	10.7	4.0	93.9	108.6
1968/69	22.3	8.8	6.2	94.1	107.3
1969/70	22.0	9.5	9.7	94.8	112.4
1970/71	26.7	12.1	6.7	91.4	113.5
1971/72	22.4	9.1	8.3	103.9	116.8
1972/73	23.7	12.4	10.1	106.6	120.4
1973/74	23.4	14.5	10.5	109.2	121.6
1974/75	25.3	15.6	10.8	112.1	120.6
1975/76	21.9	16.9	13.0	101.0	117.8
1976/77	27.6	22.9	9.0	94.7	116.8
1977/78	20.3	15.1	10.5	106.7	118.9
1978/79	18.1	15.1	14.2	120.3	122.5
1979/80	18.5	14.6	15.4	118.0	122.4
1980/81	15.6	13.6	20.3	124.8	119.9
1981/82	13.5	10.8	19.7	122.2	118.5
1982/83	10.0	8.2	20.6	131.4	116.4
1983/84	10.8	6.4	19.0	122.7	118.3
				(Extrapolated Trend Values) 1/	
1984/85				132.0	118.5
1985/86				135.0	118.4
1986/87				138.0	118.3
1987/88				141.0	118.2
1988/89				144.1	118.1
1989/90				147.1	118.0

1/ Based on the time trend functions: Y = -124.7 + 3.02X for production and Y = 128.5 - 0.12X for use, where X = 75 through 84 for the base period 1974/75-1983/84.

CORN AND SORGHUM

LATEST U.S. EXPORT FORECAST, SHIPMENTS AND SALES

Export Forecast. Forecast U.S. corn exports for October-September 1983/84, excluding about 430,000 tons of products, were raised 500,000 tons to 48.3 million tons (1900 million bushels) due to strong shipments to date and increased buying activity by several major importers. Corn prices increased throughout the month in response to a tightening world supply situation. The U.S. sorghum export forecast was also raised from 5.1 to 5.7 million tons (225 million bushels), because of increased buying activity and a strong shipment pace.

Shipments and Sales: U.S. corn sales for the 4-week period ending March 22 increased by about one-half million tons from the preceding period, although sales over the last 3 months still fall considerably below the level for the same period last year. The return of the Soviet Union to the market and purchases by South Africa were the main reasons for the strong sales during the latest 4-week period. Sorghum sales fell off sharply from the preceeding 4-week period but were still above last year's level for the same period; however, shipments remained heavy because of previous sales.

IMPORTER BUYING ACTIVITY

Sales activity was highlighted by major Soviet purchases of U.S. corn after an absence during the previous period. Egypt, Korea, Portugal, and Taiwan remained major buyers. South Africa continued to buy U.S. corn as it faces its second consecutive drought reduce crop. Norway and Spain, which usually purchase most of their corn from the U.S., have purchased from Argentina.

RECENT CORN AND SORGHUM IMPORTER BUYING ACTIVITY
REPORTED BETWEEN FEB. 23, 1984 AND MAR. 28, 1984

Approx. Date of Purchase	Buyer	Origin	Quantity (Tons)	Grade 1/	Price Range 2/ ($US per ton)	Delivery Period 3/
3/19	Egypt	Argentina	150,000	Corn	169.38 @ 169.80 C&F	Apr
3/20	El Salvador	U.S.	32,796	YC	150.38 @ 151.17	Apr
3/22	El Salvador	U.S.	35,000	#2 & 3 YC	?	Apr-Jun
2/24	Korea	U.S.	100,000	#3 YC	143.73 @ 144.81	Mar-Apr
3/23	Korea	U.S.	37,500	YC	166.82 C&F	Apr
3/23	Korea	Thailand	30,000	Corn	160.00 C&F	Apr
3/27	Korea	U.S.	104,000	#2 YC	157.16	Apr
3/28	Korea	U.S.	35,000	#2 YC	169.17 C&F	Apr-May
3/12	Mexico	U.S.	72,000	Sorghum	139.46 @ 153.43	Mar-Apr
3/1	Morocco	U.S.	36,000	#3 YC	—	Mar-May
3/21	Norway	Argentina	25,000	Corn	133.75	May
3/15	Philippines	U.S.	25,000	#2 YC	155.40	Apr
3/28	Philippines	U.S.	25,000	#2 YC	181.35 C&F	Apr-May
3/21	Portugal	U.S.	75,000	#3 YC	150.00 @ 151.95	Apr
3/28	Portugal	U.S.	45,000	YC	154.60	Apr-May
3/27	South Africa	U.S.	200,000	Corn	?	83/84
3/23	Spain	Argentina	50,000	Corn	136.00	May
3/1	Taiwan	U.S.	25,000	#2 YC	149.40	Apr-May
3/1	Taiwan	Australia	30,000	Sorghum	142.75 C&F	May
3/15	USSR	U.S.	200,000	Corn	?	83/84
3/19	USSR	U.S.	400,000	Corn	?	83/84
3/20	USSR	U.S.	300,000	Corn	?	83/84
3/21	USSR	U.S.	400,000	Corn	?	83/83
3/23	USSR	U.S.	200,000	YC	?	83/84

1/ YC=Yellow Corn and YS=Yellow Sorghum.
2/ FOB unless otherwise noted.
3/ FH denotes first half; LH, last half.

SOURCE: Unofficial market news reports.

US CORN AND SORGHUM SHIPMENTS, SALES AND INSPECTION 1/
(OCTOBER/SEPTEMBER--MILLION TONS)

Monthly Shipments

	CORN		SORGHUM	
4 Weeks Ending	82/83	83/84	82/83	83/84
December 29	3.8	4.4	.6	.6
January 26	4.0	3.8	.5	.5
February 23	4.4	3.6	.4	.6
March 22	4.3	3.9	.6	.7
Cumul. in MY	25.4	25.7	3.4	3.5

Monthly Sales 2/

	CORN		SORGHUM	
4 Weeks Ending	82/83	83/84	82/83	83/84
December 29	4.3	2.3	.3	.3
January 262	4.6	2.2	.1	.1
February 23	4.1	2.8	.2	.9
March 22	4.8	4.6	.1	.3
Cumul. in MY	36.7	37.0	3.7	4.6

Weekly and Annual Inspection Rates

	CORN		Sorghum	
	MT	BU	MT	BU
Week Ending March 15	.9	34.2	.12	4.9
Week Ending March 22	1.1	42.9	.15	6.1
Official Estimate for Current MY				
(Grain only)	47.8	1883	5.72	225
Implied Weekly Average	.9	36.2	.11	4.3
Latest Six Weeks				
Weekly Average	1.0	37.5	.17	6.6
Marketing Year-To-Date				
Weekly Average	[illegible]	39.9	.13	5.3
Weekly Avg. Extrapolated Annually	52.[illegible]	2075	7.01	276
Balance of Year to Achieve Estimate				
Implied Weekly Average	.8	33.0	.09	3.5

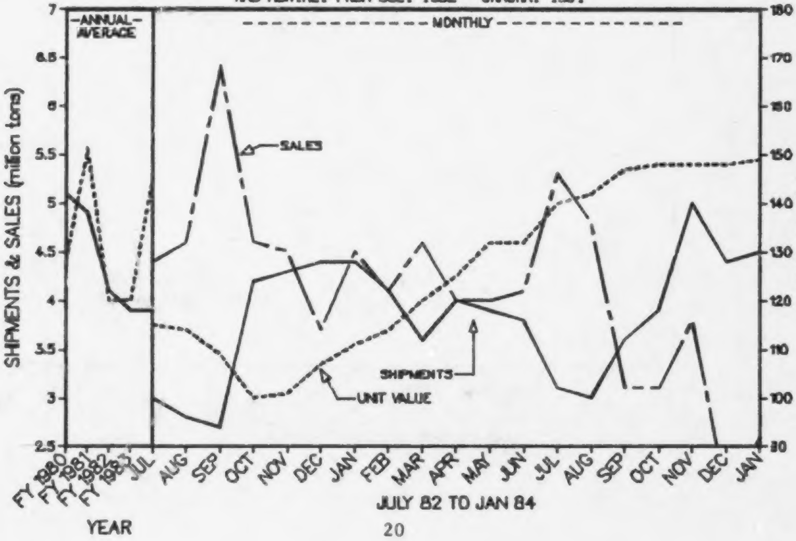
1/ Shipments and sales data from U.S. Export Sales. Inspections data from Federal Grain Inspection Service.
2/ Sales made since the beginning of the applicable marketing year, including sales for shipment in the next marketing year.
* Denotes less than 50,000 tons.
Source: Export Sales; FGIS

CORN AND SORGHUM SHIPMENTS BY MAJOR EXPORTING COUNTRIES
RECENT MONTHS AND SEASON TOTALS FOR 1982/83-1983/84
(OCTOBER/SEPTEMBER--MILLION TONS)

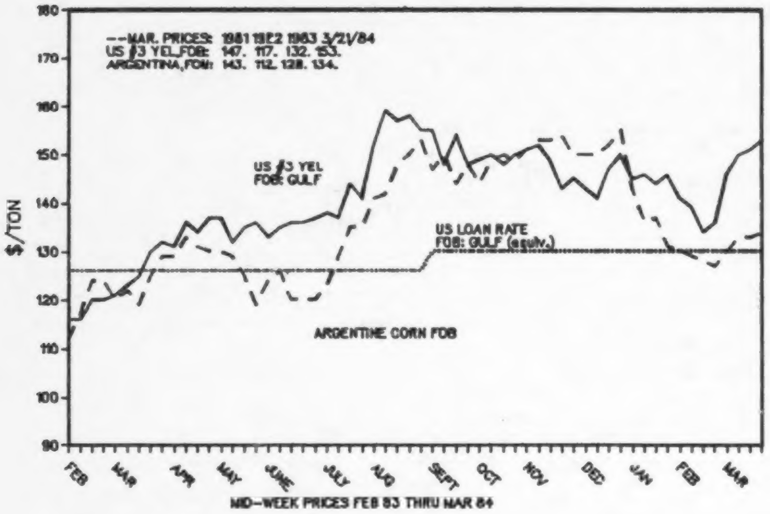
	SORGHUM		CORN					
	Argentina		Argentina		Thailand		Total	
4 Weeks Ending 1/	82/83	83/84	82/83	83/84	82/83	83/84	82/83	83/84
December 29	.3	.2	.4	.2	.2	.4	.9	.7
January 26	.1	.1	.4	.1	.1	.2	.6	.4
February 23	.1	*	.2	*	.1	.2	.4	.2
March 22	.3	.1	.2	.2	.1	.1	.6	.4
Cumul. in MY	1.1	1.1	1.5	1.0	1.2	1.7	3.8	3.8
Total for Season 2/	5.0	6.1	6.5	6.3	2.2	3.0	13.7	14.8

N/A Not available
1/ Or nearest date thereto.
2/ Projection for 1983/84.
* Denotes less than 50,000 tons.

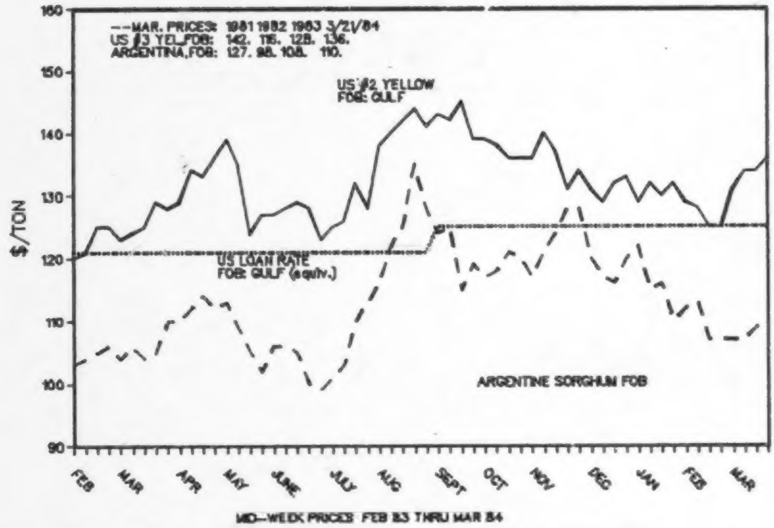
U.S. CORN SHIPMENTS, SALES AND UNIT VALUE
ANNUAL MONTHLY AVERAGES FOR FY 1980 - 1984 (proj)
AND MONTHLY FROM JULY 1982 - JANUARY 1984



CORN EXPORT PRICES
U.S. AND ARGENTINE



SORGHUM EXPORT PRICES
U.S. AND ARGENTINE



MARKET OPPORTUNITIES

**USSR: U.S. sales of corn to the USSR have jumped by over 1.8 million tons since mid-March, pushing the total for the first year of the new LTA to over 5.8 million tons, the largest level of U.S.-USSR corn trade since 1981/82. Most of the recent purchases have been for relatively nearby delivery, and are at least partly in replacement of grain earlier expected to come from Argentina, although the activity also appears to suggest that the Soviets may be stepping-up their coarse grain import program somewhat. The April-June quarter has frequently been characterized by heavy Soviet coarse grain imports with imports the following quarter declining as the Soviets turn more to domestic supplies.

**Brazil: Trade sources report the government of Brazil has made an official decision to prohibit corn exports during April-March 1984/85. This will again prevent Brazil from meeting an LTA with the USSR that calls for annual corn shipments of 500,000 metric tons. The USSR could, therefore, turn to the U.S. for those additional supplies. A prohibition on exports suggests that hot, dry weather in some major growing areas may have reduced outturn more than had been anticipated. Brazilian corn production is expected to reach 20.5 million tons, about 2.0 million tons above last year's drought reduced harvest, but about 11 percent below the record 22.9 million tons harvested in 1982. Because of this shortfall, Brazil is expected to import 500,000 tons of corn in October/September 1983/84, this is the first time Brazil has been a net importer of corn since 1981/82.

U.S. CORN AND SORGHUM EXPORTS BY DESTINATION
(OCTOBER/SEPTEMBER--1,000 TONS)

			1982/83		1983/84
Destination	1980/81	1981/82	Actual Exports	Committed as of 3/24/83 1/	Committed as of 3/22/84 1/
CORN					
EC	9,185	6,997	4,033	2,239	2,110
Other W. Europe	5,503	6,579	5,190	3,450	3,379
Eastern Europe	6,741	3,607	1,471	1,040	419
USSR	4,947	7,499	3,208	3,010	5,425
China	725	1,117	2,175	2,065	—
Japan	12,586	10,588	14,524	11,956	13,571
Taiwan	1,502	1,718	2,971	2,370	2,242
Rep. of Korea	2,304	2,690	3,815	2,284	1,773
Egypt	1,129	1,348	1,638	1,008	742
Canada	1,050	800	720	152	3
Mexico	3,832	554	4,305	2,193	1,683
Venezuela	692	414	841	538	549
Others	9,075	6,029	3,102	4,191	5,088
Total	59,749	49,940	47,993	36,496	36,984
SORGHUM					
Spain	179	790	149	149	307
Other W. Europe (excluding Spain)	595	540	286	233	82
Japan	2,725	2,437	926	684	1,388
Israel	449	368	432	236	564
Mexico	2,647	544	3,196	2,013	1,677
Venezuela	501	713	231	—	54
Others	606	898	501	402	487
Total	7,702	6,290	5,721	3,717	4,559

1/ Accumulated shipments and sales, excluding sales for next marketing year.
Source: U.S. Census for 1980/81-1981/82 and U.S. Export Sales for 1982/83-1983/84.

**Syria: Syria is encouraging the expansion of corn production to reduce its reliance on imports, most of which come from the United States, and to conserve scarce foreign exchange. The demand for corn, however, is increasing as poultry production expands. In 1983, foreign exchange problems limited the Syrian government to imports of only about 85,000 tons of U.S. corn out of planned imports of 400,000 tons, causing poultry producers to substitute lower-priced barley, wheat and wheat flour in feed rations. Despite optimistic government projections, the 1984 crop will probably not be much larger than last year's 70,000 ton harvest, necessitating continued strong import demand.

OTHER DEVELOPMENTS AFFECTING U.S. EXPORTS

Other Exporting Countries' Selling Activities and Competitive Practices

**Argentina: Reports indicate that Argentina has sold Egypt 150,000 tons of corn for April shipment at about $169-$170/ton C&F, or about $12-15/ton below U.S. offers. Last season (March-February 1983/1984), Argentina sold and shipped about 85,000 tons of corn to Egypt; in past years, Egypt has generally filled virtually all of its coarse grain import needs with U.S. corn.

Competitive Developments in Selected Foreign Markets

**South Africa: Recently a 200,000-ton U.S. corn sale was announced to South Africa. The United States has shipped 1.5 million tons of corn to South Africa since October 1983. Additional U.S. corn sales to South Africa this marketing year depend heavily upon any South African decision to buy feed wheat or barley; to date, no such purchases have been concluded.

South Africa apparently is still considering purchasing up to 1.0 million tons of feed wheat or barley from Australia and/or the EC. Two years of devastating drought has seriously reduced the South African corn crop, eliminated stocks and adversely affected grazing land. South African corn consumption averages about 7-7.5 million tons annually, about half of which is for human consumption. Imports of cheaper substitutes for corn for feed use could free-up a larger portion of this season's 4 million-ton corn crop for human consumption and could displace some potential U.S. corn sales to South Africa. However, South Africa considered barley purchases last season to supplement a short-crop and rejected the idea.

**Colombia: In an effort to reduce rice stocks and conserve foreign exchange, the government of Colombia has reached an agreement with feed mixers to use low quality rice in place of imported sorghum in feeds. Since the United States has been Colombia's sole supplier of sorghum in recent years, with shipments of about 100,000 tons annually, the agreement could cut U.S. sorghum exports to Colombia by 50,000-60,000 tons, or about 50 percent.

**Egypt: Due to a major shortfall in production, the Sudan is unable to fulfill its trade agreement with Egypt, which calls for the delivery of at least 100,000 tons of sorghum annually; exports were halted with less than 6,000 tons shipped. The inability to acquire Sudanese sorghum will likely mean increased import demand for corn for Egypt's hard-pressed feed industry.

**Republic of Korea: Korea recently bought an additional 100,000 tons of Australian feed wheat, bringing total purchases to about 300,000-350,000 tons, primarily from Australia. Korea has emerged as a significant market for Australian wheat this season. U.S. corn exports to Korea, on the other hand, are expected to fall considerably below last season's 3.9-million-ton level.

BARLEY, OATS AND RYE

LATEST U.S. EXPORT FORECAST, SHIPMENTS AND SALES

The U.S. barley export estimate remains unchanged at nearly 2.2 million tons. World demand for barley, oats and rye remains strong as import demand diversifies away from high-priced corn.

U.S. EXPORTS OF BARLEY, OATS AND RYE
(JUNE/MAY--1,000 TONS)

Grain	1982/83	1983/84 1/
Barley	1,023	2,177
Oats	44	75
Rye	3	13

1/ Projected.

OTHER DEVELOPMENTS AFFECTING U.S. EXPORTS

Other Exporting Countries Selling Activity and Competitive Practices

**Australia: Australian barley shipments and sales to date have been particularly strong. October-December 1983 shipments total about 350,000 tons, well above shipments for the period in recent years. Saudi Arabia has continued to be a major Australian market for feed barley, with purchases totaling about 1 million tons. Other Middle Eastern countries, such as Kuwait, have also bought Australian barley, as has Japan. However, European demand for Australian malting barley, reportedly has fallen. Australia is expected to export 2.6 million tons of barley in October-September 1983/84.

AUSTRALIAN BARLEY EXPORTS
OCTOBER/SEPTEMBER--1,000 TONS

Destination	1979/80	1980/81	1981/82	1982/83
Saudi Arabia	281	256	781	103
Japan	664	441	220	126
Taiwan	284	57	46	74
USSR	1,092	274	49	—
Other	579	512	979	197
Total	2,900	1,540	2,075	500

U.S. BARLEY EXPORTS BY DESTINATION
(JUNE/MAY--1,000 TONS)

Destination	1980/81	1981/82	1982/83 Total Exports	1982/83 Committed as of 3/24/83 1/	1983/84 Committed as of 3/22/84 1/
EC	247	301	112	112	549
Other W. Europe	20	472	226	226	312
Eastern Europe	92	111	—	—	126
Taiwan	226	373	146	146	225
Japan	209	336	119	118	346
Canada	—	128	—	—	—
Others	853	546	317	331	503
Total	1,647	2,267	920	933	2,061

1/ Accumulated shipments and sales excluding sales for next marketing year.
SOURCE: U.S. Census for 1980/81-1981/82 and U.S. Export Sales for 1982/83-1983/84.

BARLEY SHIPMENTS BY MAJOR EXPORTING COUNTRIES
RECENT MONTHS AND SEASON TOTALS FOR 1981/82-1983/84
(OCTOBER/SEPTEMBER--MILLION TONS)

4 Weeks Ending 1/	U.S. 82/83	U.S. 83/84	CANADA 82/83	CANADA 83/84	FRANCE 2/ 82/83	FRANCE 2/ 83/84	U.K. 2/ 82/83	U.K. 2/ 83/84	Total 82/83	Total 83/84
December 27	.1	.3	.5	.2	.1	*	.1	.1	.8	.6
January 26	.1	.3	.3	.3	.1	.1	.2	.1	.7	.8
February 23	.1	.2	.3	.2	.1	N/A	.3	N/A	.8	N/A
March 22	.1	.1	.4	.2	.1	N/A	.3	N/A	.9	N/A
Cumul. in MT	.9	1.8	2.6	2.0	.5	.3	.9	.3	4.9	4.4
Total for Season	.9	2.2	6.0	5.5	1.1	.8	1.4	.5	9.4	9.0

1/ Or closest date thereto.
2/ Excludes intra-EC trade; Cumulative reflects available data.
3/ Projection for 1983/84.
N/A Not available.
* Less than 50,000 tons.

U.S. OATS EXPORTS BY DESTINATION
(JUNE/MAY--1,000 TONS)

Destination	1980/81	1981/82	1982/83 Total Exports	1982/83 Committed as of 3/24/83 1/	1983/84 Committed as of 3/22/84 1/
EC	35	4	—	—	5
Canada	5	1	—	—	—
Mexico	35	16	—	—	—
Venezuela	28	10	1	1	3
Others	108	87	3	3	1
Total	211	118	4	4	9

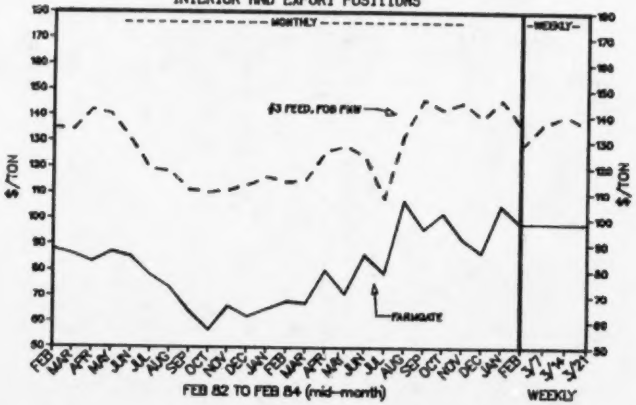
1/ Accumulated shipments and sales excluding sales for next marketing year.
SOURCE: U.S. Census for 1980/81-1981/82 and U.S. Export Sales for 1982/83-1983/84.

U.S. RYE EXPORTS BY DESTINATION
(JUNE/MAY--1,000 TONS)

Destination	1980/81	1981/82	1982/83 Total Exports	1982/83 Committed as of 3/24/83 1/	1983/84 Committed as of 3/22/84 1/
EC	18	1	—	—	3
Other W. Europe	40	13	—	—	—
Canada	—	15	—	—	—
Others	72	9	—	—	20
Total	130	38	—	—	23

1/ Accumulated shipments and sales excluding sales for next marketing year.
SOURCE: U.S. Census for 1980/81-1981/82 and U.S. Export Sales for 1982/83-1983/84.

U.S. FEED BARLEY PRICES
INTERIOR AND EXPORT POSITIONS



## **RICE**

LATEST U.S. EXPORT FORECAST, SHIPMENTS AND SALES 1/

Export Forecast. U.S. rice exports in August-July 1983/84 are forecast at 2.1 million tons, unchanged since December, 1983.

Shipments. U.S. rice exports during the four-week period ending March 22 were up slightly from the previous period at 131,500 tons. Major destinations included Iraq, Spain, Saudi Arabia, and Liberia which together account for nearly half of total rice exports for the period. Cumulative exports through March 22 of 1.3 million tons are about 4 percent behind the pace of one year ago.

Sales. New sales registrations for 1983/84 delivery during the four-week period ending March 22 dropped sharply to 74,000 tons (product basis) from the 98,900 tons sold during the previous 4-week period. Saudi Arabia was the only major buyer with 22,100 tons of rice, but also of note, 9,500 tons of rice were registered for Nigeria during the same period. Total export commitments to date now stand at 1.68 million tons compared to 1.89 million tons at this time last year.

IMPORTER BUYING ACTIVITY

Activity picked up sharply in the last month with large purchases by Bangladesh, India, Iran, Mauritania, Mali and Ivory Coast. Trading in Europe was still restrained by the expectation of lower Argentine prices as greater supplies of new crop rice become available. European buyers are now reported to be particularly interested in Thai broken rice.

Estimated 1984 Import Commitments for Selected Countries

Buyer	U.S.	Thailand	Pakistan	Burma	Other	Total Committed	Forecast Imports
India	10	285	---	175	---	470	625
Indonesia	54	120	13	65	330	582	750
Iran	---	130	95	---	85	340	680
Iraq	154	120	---	---	---	274	440
Nigeria	25	110	---	---	---	136	675

**Iraq: There were no new confirmed purchases by Iraqi Grain Board during the last month, although both Argentina and Uruguay are reportedly trying to arrange large sales. Total 1984 import commitments are estimated at 274,000 tons against projected total imports of 440,000 tons.

1/ Shipments and sales data are on a product basis.

RECENT RICE IMPORTER BUYING ACTIVITY
REPORTED BETWEEN FEBRUARY 23 and MARCH 29, 1984

Buyer	Origin	Quantity 1,000 Tons	Quality 1/	Price $/MT 2/	Delivery Period	Date of Report
Bangladesh	Burma	5.0	35%	186	Feb/Mar	2/29
		9.0	35%	196	N/A	3/1
		24.5	35%	213	Feb/Mar	2/29
	Thailand	100.0	P 20%	221	Apr/May	3/13
Belgium	Thailand	5.6	B 100% B	N/A	N/A	various
		2.1	B 100% B	N/A	N/A	3/23
	U.S.	6.5	#2/4% LG	N/A	N/A	3/6
China	Thailand	53.0	25%	N/A	Apr/Aug	3/23
Gambia	Burma	7.0	35%	178	Mar	3/8
	Thailand	24.0	A-1 S	182	Mar/Apr	3/13
India	Burma	100.0	35%	188.5	Mar/May	3/5
Indonesia	Thailand	13.1	GL 10%	N/A	Mar	2/27
	U.S.	34.8	#5/20% MG	279 4/	Apr/Jun	3/28
Iran	Thailand	17.0	100% B	N/A	Mar	2/29
		15.0	100% B	N/A	Mar	3/5
		32.5	100% B	N/A	May/Jul	3/20
		51.5	100% B	N/A	N/A	3/15
		15.0	100% B	N/A	N/A	3/23
		15.0	F 100% B	N/A	N/A	3/29
	Uruguay	85.0	4% LG	380	Apr	3/21
Italy	Thailand	6.6	P 5%	N/A	Feb	2/27
		1.5	A-1 S	N/A	Feb	2/27
		1.8	100% B	N/A	Feb	various
		3.6	B 100% B	N/A	Mar	various
		7.1	A-1 S	N/A	N/A	various
		1.5	P/B 100%	N/A	N/A	3/20
Ivory Coast	Pakistan	50.0	35%	203 3/	Mar/Jun	3/9
	China	50.0	N/A	235	N/A	N/A
	Asia	80.0	N/A	N/A	N/A	3/20
		20.0	N/A	229	N/A	3/20
		50.0	N/A	N/A	N/A	3/20
Jamaica	U.S.	4.0	#5/20% LG	350 3/	Apr	3/28
Kampuchea	Burma	7.1	35%	178	Mar	3/8
Madagascar	Thailand	13.0	A-1 S	N/A	N/A	3/2
		16.1	A-1 S	N/A	Mar	3/5
		10.0	A-1 S	N/A	Mar	3/29
	U.S.	24.4	#5/20% MG	287 4/	Apr/May	3/22
Malaysia	Burma	30.0	35%	240	Mar/May	3/9
Maldives	Burma	10.0	L/Bld 10%	200	Jun/Dec	3/5
Mali	Pakistan	50.0	40/45%	192	Jun	3/22
Mauritania	Thailand	100.0 5/	A-1 S	N/A	May/Nov	3/12
		1.5	5%	N/A	May/Sept	3/5
Mexico	Thailand	20.0	25%	247-248 3/	Apr	3/1
Mozambique	Thailand	11.0	A-1 Spec	N/A	N/A	3/20
Nigeria	Thailand	9.5	P 5%	N/A	N/A	various
		2.5	25%	N/A	N/A	3/22
	U.S.	5.0	#2/4% LG	490 3/	N/A	3/8
		4.5	#2/4% LG	N/A	N/A	3/15
Saudi Arabia	Thailand	4.1	P 100%	N/A	N/A	3/20
	U.S.	2.2	N/A	N/A	N/A	3/8
		19.7	N/A	N/A	N/A	3/15
Sierra Leone	U.S.	3.4	#5/20% MG	294 4/	Apr	3/26
Singapore	Burma	1.0	5%	240	Mar	3/9
		1.0	5%	242	Apr/May	3/9
	Thailand	5.0	F 100% C	N/A	N/A	2/29
		3.9	100% B	N/A	Feb	2/27
		20.0	100% B	N/A	Mar/Jul	3/13
		6.0	100% B	N/A	N/A	3/20
Somalia	Burma	4.1	35%	178	Mar	3/8
	Thailand	20.0	P 10%	N/A	N/A	3/20
		6.5	P 10%	N/A	N/A	3/29
South Africa	U.S.	4.5	B #2/4% LG	N/A	N/A	3/1
Spain	Australia	20.0	B MG	304 3/	Mar	3/16
Tanzania	Thailand	10.0	10%	N/A	N/A	2/29
Vietnam	Thailand	32.3	A-1 S	N/A	Mar/Apr	various
N/A	Burma	10.0	25%	192	N/A	3/2
N/A	Burma	10.0	25%	198.5	Apr	3/19
N/A	Burma	8.0	L/Bld 10%	205	Apr	3/19
N/A	Burma	40.0	35%	193	N/A	3/26
N/A	Burma	20.0	35%	N/A	N/A	3/26
Various 6/	U.S.	29.8	20% MG	278-284	Apr/May	3/19
		1.2	20% MG	295	Apr/May	3/19

1/ P = Parboiled, LG = Long Grain, MG = Medium Grain, SG = Short Grain, B = Brown, F = Fragrant, L/Bld = Long, Boiled

2/ F.o.b. basis unless otherwise indicated. Price information is in many cases unconfirmed and as reported through unofficial market sources.

3/ C&F

4/ FAS

5/ Part of which will be shipped Jan/Mar 1985.

6/ Title II purchase for various countries.

N/A Not available.

**Iran: Several purchases of Thai rice totaling 131,000 tons highlighted GTC's (General Trading Corporation of Iran) buying activity in the past month. In addition, GTC reportedly also concluded a deal with Uruguay for at least 60,000 tons and possibly as much as 85,000 tons of rice in a possible countertrade for oil.

GTC is reportedly still negotiating with Argentina for another large purchase, following the visit of an Iranian buying team to Argentina in January.

**Nigeria: Although import licenses were issued to several private traders during the past two months, the new government in Lagos recently announced its intention of making further rice purchases only on a government-to-government basis. This move is believed to have been made in an attempt to preclude any appearance of corruption or mis-dealings in the new regime. In keeping with the new policy, a Ministry of Commerce team was sent to Karachi and Bangkok to negotiate sizeable purchases of parboiled and white rice. (The negotiations in Thailand were thought to cover 100,000 tons of parboiled 5-10% rice and about 150,000 tons of 35% white rice, but reports varied widely on quantities and qualities.) The talks in Thailand reportedly were characterized by wide differences in pricing and credit, but other reports suggest that negotiations will continue.

Nigeria's interest in purchasing large volumes of white rice, in addition to the usual purchases of parboiled rice, may be an indication that the government is trying to end the movement of contraband rice from Cameroon and Niger into northern Nigeria, where white rice is traditionally eaten, and it also could indicate increased needs arising from last year's drought. While no firm estimates exist as to the extent of this cross-border trade, it may amount to as much as 100,000 tons of white rice annually. In addition, it is noteworthy that Nigeria is exploring the possibility of buying lower grades of parboiled rice than they normally do.

**Indonesia: Despite a recent announcement by Thailand's deputy prime minister that the government of Indonesia had agreed to purchase 200,000 tons of rice from Thailand, it does not appear that any new sales have taken place. Any decisions regarding further rice purchases are not likely to be made until mid-1984, after the main rice crop is harvested. As of March 1, government-held stocks totaled 1.37 million tons, up 16% over year-earlier levels. With the recent PL 480 tender, estimated import commitments for 1984 are placed at 582,000. A total of 165,000 tons of rice were imported during the first 2 months of 1984.

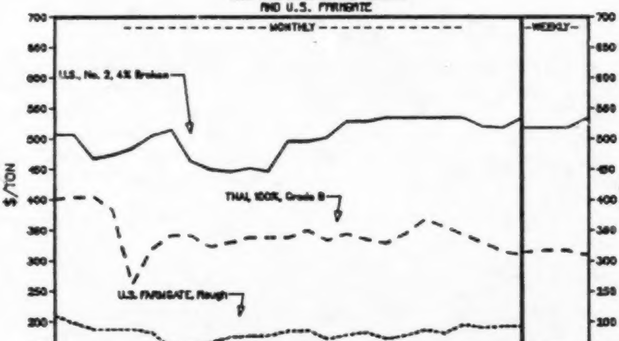
Recent heavy flooding on the island of Java reportedly has damaged the main rice crop there, which may raise questions about Indonesia's import needs during the remainder of the calendar year. However, new seeds were distributed for replanting in the affected areas, and the Minister of Agriculture has announced that the 1984 crop is still expected to show an increase over the record 1983 crop despite the flooding.

U.S. RICE EXPORT COMMITMENTS BY CLASS TO MAJOR DESTINATIONS
FOR 1980/82-1982/83, AND AUGUST 1 THROUGH MARCH 22 FOR 1983/84
(AUGUST/JULY—1,000 TONS)

Destination	Marketing Year	Long Grain Milled	Long Grain Brown 2/	Other 1/ Milled	Other 1/ Brown 2/	Total Exports
EC 10	1980/81	4	221	1	—	226
	1981/82	2	310	56	192	560
	1982/83	1	214	15	—	230
	1983/84	23	149	2	26	199
Other W. Europe	1980/81	22	51	1	*	73
	1981/82	58	76	4	28	166
	1982/83	33	54	3	4	93
	1983/84	20	30	3	118	171
E. Europe & USSR	1980/81	7	—	25	—	32
	1981/82	*	—	*	—	*
	1982/83	*	—	*	—	*
	1983/84	—	—	—	—	—
Iran	1980/81	—	—	—	—	—
	1981/82	85	—	—	—	85
	1982/83	—	—	—	—	—
	1983/84	—	—	—	—	—
Iraq	1980/81	103	—	—	—	103
	1981/82	270	—	*	—	270
	1982/83	327	—	*	—	327
	1983/84	207	—	2	—	209
Saudi Arabia	1980/81	237	—	8	—	244
	1981/82	250	—	15	—	265
	1982/83	267	—	2	—	269
	1983/84	206	—	4	—	210
Other Middle East	1980/81	106	4	1	—	110
	1981/82	106	8	17	3	135
	1982/83	48	—	2	—	50
	1983/84	29	—	2	—	31
Republic of Korea	1980/81	—	—	—	1,161	1,161
	1981/82	—	—	*	339	339
	1982/83	—	—	*	213	213
	1983/84	—	—	*	112	112
Other Asia & Oceania	1980/81	133	—	10	*	142
	1981/82	4	—	38	—	43
	1982/83	2	—	129	—	132
	1983/84	4	—	80	—	85
Nigeria	1980/81	249	—	—	—	249
	1981/82	347	—	—	—	347
	1982/83	159	—	—	—	159
	1983/84	50	—	—	—	50
Other Africa	1980/81	176	106	45	4	330
	1981/82	116	117	84	4	320
	1982/83	148	110	153	4	414
	1983/84	83	93	87	—	262
W. Hemisphere	1980/81	202	40	72	37	352
	1981/82	129	25	12	15	181
	1982/83	137	23	86	38	284
	1983/84	129	27	105	17	278
Total 3/	1980/81	1,238	422	162	1,202	3,024
	1981/82	1,379	335	228	581	2,723
	1982/83	1,148	400	392	259	2,198
	1983/84	774	298	285	322	1,679

* Less than 500 tons.
1/ Includes medium, short, and mixed.
2/ Data not converted to a milled equivalency. Includes rough rice.
3/ Discrepancies due to rounding and changes to unknown destinations.
SOURCE: U.S. Export Sales

RICE PRICES
U.S. AND THAI C&F ROTTERDAM
AND U.S. FARMGATE



**India: Despite a record kharif rice crop, officially estimated at 80 million tons (rough basis), and an apparently successful procurement campaign, India recently purchased 100,000 tons of rice from Burma, bringing its total import commitments to 470,000 tons. Market offtake continues to be heavy, with an estimated 600,000 tons released in January and 650,000 tons in February and March. As a result, government held stocks on April 1 are expected to total 5.5 million tons (compared to 5.1 million tons as of the same date last year), but are currently projected to decline to about 3 million tons by October 31. (Government stocks generally reach their lowest levels at this time, just before procurement of the new harvest begins.) While this is marginally better than the low 2.3 million tons held on October 31 last year, it is sharply below the optimal level and additional imports will likely be needed to maintain current stock levels. Total imports for 1984 are currently projected at 625,000 tons.

**Mexico: In its February 28 tender, Mexico purchased 20,000 tons of Thai 25% broken white rice at $247-248 per ton. The closest offer for U.S. #5/20% broken white rice was $363-366 per ton. Mexico has now covered 40,000 tons (all from Thailand) of projected 1984 total import needs of 125,000 tons. A recent report out of Thailand also suggests that Mexico has agreed to import an additional 60,000 tons of Thai rice in 1984, but there has been no confirmation of such an agreement from Mexico.

**Ivory Coast: In addition to the recent government-to-government purchase of 50,000 tons of 35% broken rice from Pakistan, the Ivory Coast reportedly also purchased 200,000 tons of rice from the private trade. The latter purchases are especially noteworthy in that they appear to indicate a significant shift in policy away from purchasing under government-to-government contract in favor of buying under tender. The Ivory Coast is currently forecast to import 350,000 tons of rice in 1984.

MARKET OPPORTUNITIES

**Mexico: Despite the unconfirmed report of an agreement to purchase 60,000 tons of Thai rice, Mexico is expected to tender again soon. Mexico reportedly does not have enough cash to cover all of its rice import needs in 1984, so CONASUPO, the food authority, is expected to give additional consideration in the next tender to using GSM-102 credit to purchase U.S. bulk brown rice, which was priced competitively with Thai brown rice in the last tender. Such a sale would also provide a boost to the under-utilized rice milling industry in Mexico.

OTHER DEVELOPMENTS AFFECTING U.S. EXPORTS

World rice prices strengthened during the past month due to increased export sales activity, talk of further Indian purchases and possible large Brazilian import needs. Actual selling prices for Thai rice have risen to near the level of the Thai Board of Trade (BOT) posted prices (which for March 28 are indicated in parenthesis), with 100% B selling at $250-260 ($260) per ton and parboiled 5% selling at $240-250 ($255) per ton. Burma is reported to be now asking up to $200 per ton for 35% brokens and $210 per ton for 25%. Given reports of tight rice supplies in Pakistan, prices may be expected to rise further.

RECENT THAI RICE SALES

Destination	Quantity (1,000 MT)		Quality 2/	Price $/MT 3/	Delivery	Date of Report
	Current	Est. Cumulative 1/				
Bangladesh	100.0	114.5	P 20%	221	Apr/May	3/13
Belgium	3.3		B 100% B	N/A	N/A	3/2
	2.1		B 100% B	N/A	N/A	3/22
	2.1	13.3	B 100% B	N/A	N/A	3/29
China	33.0	100.0	25%	N/A	Apr/Aug	3/23
Djibouti	2.5		P 10%	N/A	N/A	3/21
	1.8	4.3	P 10%	N/A	N/A	3/22
Dubai	1.0		10%	N/A	N/A	3/2
	1.0	9.0	10%	N/A	N/A	3/22
Gambia	24.0	34.9	A-1 S	182	Apr/Jun	3/13
Germany, West	3.0	3.0	100% B	N/A	N/A	3/20
Hong Kong	1.2	5.5	A-1 S	N/A	N/A	3/20
Indonesia	4.4		GL 10%	N/A	Mar	2/27
	5.7	120.1	GL 10%	N/A	Mar	2/27
Iran	17.0		100% B	N/A	Feb/Mar	2/29
	15.0		100% B	N/A	Mar	3/5
	32.5		100% B	N/A	Mar	3/20
	51.5		100% B	N/A	May/Jul	3/15
	15.0		100% B	N/A	N/A	3/23
	15.0	160.0	F 100% B	N/A	N/A	3/29
Israel	1.0	4.3	5%	N/A	N/A	2/29
Italy	6.6		5%	N/A	Feb	2/27
	1.8		100% B	N/A	Feb	various
	1.5		A-1 S	N/A	Feb	2/27
	3.6		B 100% B	N/A	Mar	various
	7.1		A-1 S	N/A	N/A	various
	1.5	27.8	P/B 100% B	N/A	N/A	3/22
Liberia	5.0	5.0	25% S	N/A	N/A	various
Madagascar	13.0		A-1 S	N/A	N/A	2/27
	5.7		A-1 S	N/A	Mar	3/5
	20.4	39.1	A-1 S	N/A	Mar	various
Mali	1.0	1.0	35%	N/A	May/Nov	3/29
Mauritania	100.0 5/		A-1 S	N/A	May/Nov	3/12
	1.5	108.5 5/	5%	N/A	N/A	3/5
Mexico	20.0	40.6	25%	247-248 4/	Apr	3/1
Mozambique	11.0	11.0	A-1 S	N/A	N/A	3/20
Netherlands	1.0		A-1 Spec	N/A	N/A	3/20
	1.0		A-1 S	N/A	N/A	3/20
	2.1	11.9	B 100% B	N/A	N/A	3/22
Nigeria	4.5		P 5%	N/A	N/A	3/20
	2.5		25%	N/A	N/A	3/22
	5.0	111.0	P 5%	N/A	N/A	3/22
Saudi Arabia	4.1	14.1	P 100% B	N/A	N/A	3/20
Singapore	5.0		F 100% B	N/A	N/A	2/29
	3.9		100% B	N/A	Feb	2/27
	20.0		100% B	N/A	Mar/Jul	3/13
	6.0	47.4	100% B	N/A	N/A	3/20
Somalia	20.0	20.0	P 10%	N/A	N/A	3/20
	6.5	26.5	P 10%	N/A	N/A	3/29
Tanzania	10.0	10.0	10%	N/A	N/A	2/29
Vietnam	6.7		A-1 S	N/A	Mar	2/27
	3.6		A-1 S	N/A	Mar	3/5
	6.2		A-1 S	N/A	Mar	3/5
	10.5		A-1 S	N/A	N/A	3/12
	5.3	32.3	A-1 S	N/A	N/A	3/12

1/ For all qualitites for 1984 delivery.
2/ P=Parboiled, B/5% = Brown rice 5% brokens, etc., F=Fragrant
3/ F.o.b. basis unless otherwise indicated. Price information is in many cases unconfirmed and as reported through unofficial market sources.
4/ C&F
5/ Part of which will be shipped Jan/Mar 1985.

N/A = not available

**Thailand: Rice exports have picked up sharply in the last month. Cumulative exports from January 1 through March 17 amounted to 947,000 tons compared to 817,383 tons during the same period last year.

WEEKLY THAI RICE EXPORTS
(TONS)

Week Ending		Actual	4-Week Moving Avg.
February	25	99,046	65,230
March	3	121,395	81,220
	10	134,366	106,220
	17	113,585	117,096

There have been a large number of sales in the past month, highlighted by big sales to Bangladesh, Iran, and Mauritania. Estimated total export commitments for 1984 now total 2.4 million tons compared to 1.9 million tons at this time last year. Thailand's 1984 exports are currently expected to match last year's export level of 3.7 million tons.

**Pakistan: Two large government-to-government sales in the past month to Mali and the Ivory Coast have put the Rice Export Corporation of Pakistan (RECP) in the very comfortable position of already having committed much of the 1983/84 procurement. In addition, RECP is reportedly negotiating a sale to Nigeria of 150,000 tons of 15/20% and 30,000 tons of 40/45%. If such a sale is completed, Pakistan will likely not tender again until June. Total export commitments for 1984 are now estimated at nearly 720,000 tons against projected total exports of 1.3 million tons. Pakistan has already shipped nearly 217,000 tons (including 68,000 tons of basmati) during January and February of this year, up nearly 35% over that exported during the same period in 1983.

**Burma: There was also an increase in sales activity in Burma last month, marked by the sale of 100,000 tons of 35% brokens to India, in addition to smaller sales to Bangladesh, Malaysia and others. Export commitments for 1984 are currently estimated at nearly 616,000 tons, up sharply over the estimated 425,000 tons sold as of the same date in 1983. Burma is projected to export 800,000 tons of rice in 1984, but, like last year, logistical problems could be a limiting factor. Through February, an estimated 83,000 tons were shipped, about 9 percent below the volume shipped in the first two months of 1983.

**Taiwan: The United States and Taiwan recently concluded an agreement which will limit Taiwan's subsidized rice exports (excluding donations) to a total 1.375 million tons over the next 5 years. Rice exports in 1984 will be limited to 375,000 tons compared to total exports in 1983 of 530,000 tons.

The agreement came in response to concerns that subsidized Taiwan rice exports were damaging the U.S. rice industry. Under the terms of the agreement, Taiwan also agreed not to export rice to any country that had a per capita GNP of $795 or above in 1981.

****Costa Rica**: Following a drought-reduced crop in 1983, a record harvest this year has made available for export an estimated 42,000-70,000 tons of rice. Costa Rica reportedly intends to approach Mexico again on the possible sale of 30,000 tons of rice, and sales to Venezuela and the Middle East are also being considered. Last year, due to a drought-reduced crop, Costa Rica imported 36,000 tons of rice, including 31,000 tons from the United States (21,000 tons under PL-480 Title I).

U.S. EXPORT EXPANSION ACTIVITIES

****GSM-102**: No new GSM-102 programs were announced in the last month. As of March 19, the Commodity Credit Corporation (CCC) had an outstanding credit line for rice purchases totaling $139.7 million. The outstanding credit lines were: Brazil ($15.0 million), Iraq ($63.2 million), Jamaica ($2.8 million), Mexico ($35.0 million), Peru ($10.0 million) and Portugal ($13.7 million).

****P.L. 480**: During the last month nearly 82,000 tons of rice were purchased by Sierra Leone, Madagascar and Indonesia. A new PL 480 agreement was signed with Somalia. In addition, the Commodity Credit Corporation (CCC) purchased over 31,000 tons for the Title II program. The following table outlines the current status of FY 1984 PL-480 Title I/III programs.

STATUS OF P.L. 480 TITLE I/III RICE PROGRAMS FOR FY 1984

				Tender Results			
Country	Allocation $Million	Agreement Signed	P.A. Issued	Date	TMT Purchased	Price $/MT FAS	Quality 1/
Completed							
El Salvador	1.2	X	X	12/22	4.4	271-272	MG
Liberia	15.0	X	X	1/09	42.1	336-344	LG, P
Bangladesh	15.0	X	X	1/11	55.7	269	MG
Madagascar	7.0	X	X	3/22	24.4	287	MG
Sierra Leone	1.0	X	X	3/26	3.4	294	MG
Indonesia	15.0	X	X	3/27	53.8	279	MG
Subtotal	54.2				183.8		
Pending							
Congo	2.0						
Guinea	2.0						
Jamaica	5.0						
Kenya	4.0						
Mauritius	2.2						
Peru	10.0						
Senegal	7.0						
Somalia	5.5	X	3/20				
Sudan	2.0						
Zambia	1.8						
Subtotal	41.5						
Total	95.7						

1/ No. 5/20 percent unless otherwise indicated, P=Parboiled, MG=Medium Grain, and LG=Long Grain.

PULSES

**Japan: While Japanese pea imports have remained fairly stable at about 20,000 tons annually, the U.S. market share has fallen as Japan has diversified its sources of supply. In MY 1982 and MY 1983, pea imports were up somewhat because of a Japanese government promise to allow pulse imports of at least 50 million dollars or 110,000 tons each year. Lower prices have invoked the tonnage portion of the quota, but to prevent excessive imports of beans that would disrupt the domestic market, the Ministry of Food and Fisheries has chosen to increase pea imports instead. As a result, the pea quota for 1983 was increased by 10 percent, while other quotas were reduced by 25 to 35 percent.

This circular was prepared by the Grain and Feed Division, Commodity Programs, FAS/USDA, Washington, D.C. 20250, Tel. (202) 447-2009.

U.S. WHEAT PROGRAMS

	1982 Program		1983 Program		1984 Program	
	Equivalent Export Price 1/ ($/Ton)	Farm Price ($/BU)	Equivalent Export Price 1/ ($/Ton)	Farm Price ($/BU)	Equivalent Export Price 1/ ($/Ton)	Farm Price ($/BU)
Trigger Release Price	$208	$4.65	$200	$4.45	—	—
Target Price	$186	$4.05	$195	$4.30	$200	$4.45
Loan (Reserve)	$184	$4.00	$171	$3.65	—	—
National Loan	$167	$3.55	$171	$3.65	$158	$3.30
Season Average Producer Price	$166	$3.53	$165	$3.50 2/	—	—
Current Farm Price	—	—	$166	$3.53 3/	—	—
Paid Diversion	—	—	$136	$2.70	—	—

1/ Estimated equivalent, adjusted from $/bushel at the farm level by including transportation and handling allowances of $1.00/bushel.
2/ Mid-point of range.
3/ ASCS 5-day moving average as of March 28, 1984.

U.S. CORN PROGRAMS

	1982 Program		1983 Program		1984 Program	
	Equivalent Export Price 1/ ($/Ton)	Farm Price ($/BU)	Equivalent Export Price 1/ ($/Ton)	Farm Price ($/BU)	Equivalent Export Price 1/ ($/Ton)	Farm Price ($/BU)
Season Average Producer Price	$136	$2.65	$161	$3.30 2/	—	—
Trigger Release Price	$159	$3.25	$159	$3.25	—	—
Current Farm Price	—	—	$167	$3.45 3/	—	—
Target Price	$138	$2.70	$144	$2.86	$151	$3.03
National Loan	$132	$2.55	$136	$2.65	$132	$2.55
Loan (Reserve)	$146	$2.90	$136	$2.65	—	—
Paid Diversion	—	—	$91	$1.50	—	—

1/ Estimated equivalent, adjust from $/bushel at the farm level by including transportation and handling allowances of $.80/bushel.
2/ Mid-point of range.
3/ ASCS 5-day moving average as of March 28, 1984.

AGRICULTURE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR KASSEBAUM

Question 1. "What is the present status of beef trade talks with the Japanese and will an agreement be signed soon? What problems, if any, are blocking an agreement?"

Answer. Currently, the Office of the U.S. Trade Representative is working with the Japanese on the final draft of the agreement. The slowness in reaching a final draft has come about due to remaining differences on implementation of the understanding as well as the need to clarify certain technical matters in the wording.

Another reason for the slowness in reaching a final agreement may be that the Japanese are concluding negotiations with the Australians on the level of the overall quota, which will determine the possible increase for Australian grass-fed beef. The Japanese may want to conclude both agreements simultaneously.

Even though there has not yet been an exchange of letters, Japan has begun implementing certain provisions of the Brock-Yamamura Agreement. Citrus licenses were issued on schedule, and on June 22, the beef quota for the first half of Japan fiscal year 1984 was announced with the global quota being set at 76,000 MT, reflecting a 4,000 MT increase from the same period last year. Tenders for over 17,000 MT have already been issued by the Japan Livestock Industry Promotion Corporation, 4,740 MT of which is grain-fed quality.

Question 2. Does USDA intend to use blended credit programs in the future and, if so, what criteria will be established to qualify for these programs?

Answer. USDA is mandated to use $325 million in fiscal year 1985 for export expansion activities ($175 million "Helms Amendment" and $150 million Fiscal Year 1984 Farm Bill). This mandate could be fulfilled by a wide range of program activities. At this time, blended credit is under consideration along with several other program options. Meeting subsidized competition will continue to be the criterion for the blended credit program.

We have no direct credit allocation to fund blended credit in fiscal year 1986, as the $175 million "Helms Amendment" covered fiscal year 1983–fiscal year 1985. Furthermore, the benefits of any expenditure on behalf of agricultural exports must be weighed against other demands on the budget and within the context of efforts to reduce the budget deficit.

Question 3. Is a narrowing of requirements for the blended credit program expected in setting eligibility for foreign nations and buyers?

Answer. The fiscal year 1984 blended credit program was used exclusively to meet subsidized competition in wheat/flour markets. The program was narrowed to this extent to meet trade policy considerations. Under the fiscal year 1984 criteria, blended credit lines could be extended to only five countries, one of which did not use it. We project that about $70 million of our $175 million fiscal year 1984 direct credit allocation will be used for blended credit. Were program criterias narrowed further, it would render the program difficult to implement.

Question 4. Does USDA have an interest in establishing an intermediate credit program with a repayment period of 7 to 10 years, creating a new credit program between the GSM 102 program and Public Law 480?

Answer. There are two intermediate credit programs that are authorized but not currently funded—GSM-301 and GSM-201.

GSM-301 provides financing of U.S. agricultural exports on credit terms between 3 and 10 years. The financing must be used to establish storage, and handling and distribution facilities in the importing country through the use of local currency generated from the import and sales of U.S. agricultural commodities.

GSM-201 provides financing of U.S. breeding animals on credit terms between 3 and 10 years. The purpose of GSM-201 is to increase the export of U.S. breeding animals in order to expand livestock sectors in importing countries in turn, expanding export markets for U.S. feed and grains.

While implementation of intermediate credit programs continues to be considered, the benefits of these programs must be evaluated against other demands on the budget and the need to reduce the Federal budget deficit.

Question 5. What is the future of the Public Law 480 program? Is any significant increase in this program expected in the next 5 years or beyond?

Answer. The future of the Public Law 480 program will undoubtedly reflect future world food needs. Historically, the United States has provided approximately 60 percent of total food aid flows. Because a substantial need for international food assistance will continue and may in fact increase in the foreseeable future, Public Law 480 will be needed in order for the United States to help meet those needs.

The level of future Public Law 480 program funding and export shipments will reflect world food aid needs, but also domestic U.S. economic and fiscal consideratins. Some increase in the program is already taking place; in fiscal year 1985 the program level could reach $1.9 billion if pending supplemental appropriations are approved. Using current price estimates that level would finance total Public Law 480 exports of 7.7 million metric tons. That would be the highest annual level of Public Law 480 exports in the past decade.

[Whereupon, at 4:12 p.m., the committee adjourned, subject to call of the Chair.]

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